

ANNUAL REPORT

OF

HNA ECOTECH PANORAMA CAYMAN CO. LTD
(formerly known as BCP (Singapore) VI Cayman Financing Co. Ltd.)

For the year ended December 31, 2016

190 Elgin Avenue, George Town
Grand Cayman KY1-9005
Cayman Islands

EXPLANATORY NOTE

In this annual report, unless otherwise indicated or the context otherwise requires:

“HNA Ecotech,” “Company,” “company,” “we,” “our,” “us” and “Successor” refer to HNA Ecotech Panorama Cayman Co. Ltd, a company incorporated in the Cayman Islands, which is formerly known as BCP (Singapore) VI Cayman Financing Co. Ltd., and, as the context may require, its consolidated subsidiaries;

“China” and the “PRC” refer to the People's Republic of China, excluding, for the purpose of this annual report only, Taiwan and the special administrative regions of Hong Kong and Macau;

“Greater China” refers to China, Taiwan and the special administrative regions of Hong Kong and Macau;

“HiSoft” refers to HiSoft Technology International Limited, a company incorporated in the Cayman Islands which changed its name to Pactera Technology International Ltd. (being “Pactera” as referred to in the definition below) and, as the context may require, its consolidated subsidiaries and variable interest entities, for periods prior to November 9, 2012;

“HNA” refers to HNA Ecotech Group Co., Ltd., a company with limited liability incorporated under the laws of the PRC.

“2014 Merger” refers to the merger of BCP (Singapore) VI Cayman Merger Co. Ltd., a direct wholly owned subsidiary of HNA Ecotech, with and into Pactera on March 27, 2014, following the consummation of which, Pactera, as the surviving company resulting from the Merger, became a direct wholly owned subsidiary of HNA Ecotech;

“MOE” refers to the merger of equals between HiSoft and VanceInfo, which came into effect on November 9, 2012;

“Notes” refers to the 8.000% senior secured notes due 2021 issued by HNA Ecotech;

“Pactera” and “Predecessor” refer to Pactera Technology International Ltd., formerly known as HiSoft Technology International Limited, a company incorporated in the Cayman Islands, and, as the context may require, its consolidated subsidiaries and variable interest entities, for periods prior to March 27, 2014;

“Parent” refers to HNA EcoTech Vision Cayman Co. Ltd (formerly known as BCP (Singapore) VI Cayman Acquisition Co. Ltd.), a company incorporated in the Cayman Islands and which wholly owns the Company; and

“VanceInfo” refers to VanceInfo Technologies Inc. 文思信息技术有限公司, a company incorporated in the Cayman Islands and, as the context may require, its consolidated subsidiaries and variable interest entities, for periods prior to November 9, 2012.

Basis of Preparation

HNA Ecotech was incorporated in the Cayman Islands on August 29, 2013. HNA Ecotech is wholly owned by Parent, which is a company incorporated in the Cayman Islands.

On March 27, 2014 (the “Merger Date”), pursuant to the agreement and plan of merger dated as of October 17, 2013 among Pactera, Parent, HNA Ecotech and BCP (Singapore) VI Cayman Merger Co. Ltd. (the “Merger Sub”) (the “Merger Agreement”), Merger Sub merged with and into

Pactera with Pactera being the surviving company resulting from the Merger. As a result of the Merger, Pactera became a direct wholly owned subsidiary of the Company.

Pactera is considered to be the Predecessor of the Company as the Company succeeded to substantially all of the business of Pactera and the Company's own operations prior to the succession were relatively insignificant as compared to the operations assumed or acquired. Consequently, in this annual report, the audited consolidated financial statements presented for the Successor include the audited consolidated statements of operations, comprehensive income (loss), and cash flows for the nine months ended December 31, 2014 and for the years ended December 31, 2015 and 2016, the consolidated statements of changes in equity for the years ended December 31, 2014, 2015 and 2016 and the audited consolidated balance sheet as of December 31, 2015 and 2016, while the audited consolidated financial statements presented for the Predecessor include the audited consolidated statements of operations, comprehensive income (loss), changes in equity, and cash flows for the three months ended March 31, 2014.

The Predecessor and Successor periods have been separated by a vertical line on the face of the audited consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under different accounting bases.

Since the date of the change in basis of accounting was March 27, 2014, the consolidated statements of operations, comprehensive loss, changes in equity and cash flows of Predecessor are presented through March 31, 2014 with no adjustments to the historical basis since adjustments to the amounts required for the four days from March 28 to March 31, 2014 would be insignificant.

On August 8, 2016, HNA, the Parent, BCP (Singapore) VI Cayman PRC Co. Ltd. and certain other shareholders of the Parent entered into a share purchase agreement (the "SPA") that provided for the acquisition by HNA or any of its affiliates of all or substantially all of the outstanding shares of the Parent. On January 3, 2017, the acquisition contemplated by the SPA was completed and Great Paeon Investment Co., Limited ("Great Paeon"), an indirectly wholly owned subsidiary of HNA, acquired all of the outstanding shares of the Parent (the "2017 Merger").

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP" or "GAAP").

Forward-Looking Statements

This annual report includes forward-looking statements regarding, among other things, our plans and prospects, both business and financial. These statements are based on the beliefs and assumptions of our management. Although we believe that our plans, intentions and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve or realize these plans, intentions or expectations. Forward-looking statements are inherently subject to risks, uncertainties and assumptions. Generally, statements that are not historical facts, including statements concerning our possible or assumed future actions, events or results of operations, are forward-looking statements. These statements may be preceded by, followed by or include the words "believes," "estimates," "expects," "projects," "forecasts," "may," "will," "should," "seeks," "plans," "scheduled," "anticipates" or "intends" or similar expressions.

Forward-looking statements are not guarantees of performance. You should not put undue reliance on these statements which speak only as of this date hereof. You should understand that the following important factors, in addition to those discussed in "Risk Factors" and elsewhere in this annual report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements:

- our potential future indebtedness;

- our goals;
- our prospects, business development, growth of our operations, financial condition and results of operations;
- our ability to introduce successful new services and attract new clients;
- the expected demand for information technology (“IT”) and research and development outsourced technology services in our principal target markets of the United States, China and Japan;
- our expectations regarding maintaining and strengthening relationships with our key clients;
- our ability to attract and retain skilled and experienced professionals;
- our ability to pursue, integrate and manage our strategic acquisitions;
- trends in our service offerings mix;
- changes in the IT industry in China, including changes in the policies and regulations of the People’s Republic of China (“PRC”) government governing the IT industry;
- our ability to compete against competitors, such as global providers of outsourced technology services as well as those based in China;
- fluctuations in general economic and business conditions affecting our key client geographies of the United States, Japan, Europe or China;
- our ability to diversify our client base;
- various tax risks associated with our being subject to tax in more than one tax jurisdiction; and
- fluctuations in general economic and business conditions.

These and other factors that could cause actual results to differ from those implied by the forward-looking statements in this annual report are more fully described in “Risk Factors” and elsewhere in this annual report. The risks described in “Risk Factors” are not exhaustive.

Other sections of this annual report describe additional factors that could adversely affect our business, financial condition or results of operations. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. We undertake no obligations to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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Business

Overview

We are a leading global China-based IT services provider to top multinational and Chinese corporations. Our business is distinguished by our portfolio of blue-chip clients, a balanced geographic mix of revenues, an extensive Asia footprint, and leading positions in both the market for global offshoring of IT services into China and the Chinese domestic IT services outsourcing market. Our clients include 90 Fortune 500 companies, whom we serve throughout the world via our global sales and delivery footprint. We typically form long term relationships with our clients, for many of whom we are their sole or largest China-based IT services provider.

Our service offerings comprise (i) IT services (“ITS”), comprising 70.9% of our net revenues for the year ended December 31, 2016, which consist of outsourced application development and maintenance services (“ADM”) and consulting and packaged software services (“CPS”); (ii) research and development services (“RDS”), comprising 26.4% of our net revenues for the year ended December 31, 2016, which consist of providing development, testing and localization services for software and hardware products developed by our clients; and (iii) business process outsourcing services (“BPO”), comprising 2.7% of our net revenues for the year ended December 31, 2016.

Having been named as one of the leaders of 2016’s best outsourcing service providers in The Global Outsourcing 100[®] ranking released by the International Association of Outsourcing Professionals[®] (IAOP[®]), we have a unique ability to participate in two large, attractive and fast growing markets: (i) IT services offshoring into China and (ii) the domestic Chinese IT outsourcing services market.

- *Offshoring of IT services into China* — We have been serving international clients’ global and Asia based operations from dedicated delivery centers in China since our founding in 1996. Clients headquartered outside of China contributed 48.3% of our net revenues for the year ended December 31, 2016.
- *Chinese domestic IT outsourcing services* — We have leveraged our expertise serving international clients to build a leading position in the Chinese domestic IT services outsourcing market. We focus on industries which we believe provide the most attractive opportunities, such as the banking, financial services and insurance (“BFSI”) industries. Clients headquartered in China accounted for 51.7% of our net revenues for the year ended December 31, 2016.

We have strong industry expertise in high technology (“High Tech”), BFSI, and manufacturing, with clients from these industries representing 50.4%, 33.5% and 14.1% of our net revenues for the year ended December 31, 2016, respectively. Our High Tech clients are primarily served by our RDS business, where we support them with development, testing and localization services to improve the performance of and shorten the time-to-market for their products. Our BFSI clients, which include some of the world’s largest banks, are primarily served by our ITS business, where we provide both ADM and CPS services, with a focus on banking solutions. We support our manufacturing clients through a combination of ITS and RDS services, addressing their internal IT infrastructure needs and supporting their product development.

We deliver our services onsite, at our clients’ captive delivery centers, or from our dedicated delivery centers. For the majority of our clients, we complete rigorous approval processes and audits, which can take up to 18 months, before commencing work. After we become an approved vendor for a client, we typically operate under a long term master service agreement. We often work on multiple projects at the same time under a single master service agreement with a client. We often become deeply integrated in our clients’ internal IT organization or product development process, which fosters client loyalty and retention.

We have a highly diversified client portfolio across geographies, service offerings and industries. For the year ended December 31, 2016, we had 137 clients generating over \$1.0 million in net revenue, increased from 116 clients for the year ended December 31, 2015. Our service offerings, particularly RDS and ADM, are highly recurring in nature.

In line with our strategic roadmap to make digital services a core service offering of our company by 2018, we completed the acquisition of Blue Fountain Media Inc. (“Blue Fountain Media”), a New York-based digital agency specializing in online brand promotion by providing services of custom website design, results-driven digital marketing and mobile application development for both business-to-business and business-to-customer companies across all industries, in January 2016. The acquisition of Blue Fountain Media not only adds to our suite of digital capabilities, but also expands our strategic relationships with clients, deepening our ability to transform brands and businesses with both consumer and enterprise digital solutions. Blue Fountain Media will become part of our digital services practice. The Blue Fountain Media team consists of over 150 digital strategists, information architects, designers, developers, marketers, communications specialists, account directors, project managers and business developers and they will continue to work at their office in New York. In addition, Blue Fountain Media has an offshore development team located in both Portugal and Ukraine, which will add to our established offshore capabilities.

Financial Performance

We have grown rapidly since we began operations in 1996, and we significantly increased our scale and improved our market position through our strategic MOE with VanceInfo, another leading China-based IT services provider in November 2012.

Our net revenues grew from \$777.3 million in the year ended December 31, 2015 to \$806.1 million in the year ended December 31, 2016. Our adjusted EBITDA increased from \$43.1 million in the year ended December 31, 2015 to \$52.3 million in the year ended December 31, 2016. See “Selected Financial Data” for a definition of Adjusted EBITDA and a reconciliation to US GAAP net income.

Our Services

Our service offerings are: (i) ITS, consisting of ADM and CPS services, (ii) RDS, and (iii) BPO, in each case, as illustrated below.

ITS (70.9% of net revenues for the year ended December 31, 2016)

Our ITS business principally involves the delivery of outsourced technology services to large multinational and Chinese corporations. We develop, maintain, and enhance our clients’ IT applications and systems. We typically market our ITS offerings to senior level executives, including chief executive officers and chief information officers, due to the strategic nature of IT investment decisions.

Our ADM services (comprising 43.1% of our net revenues for the year ended December 31, 2016) include development and configuration of customized applications, application testing and maintenance, and data migration services. Our clients typically engage us to help them achieve cost savings, to improve the delivery speed and quality of IT projects or to access our specific technology solutions expertise. Our ADM services are delivered through our offshore delivery centers, at clients’ sites or at our clients’ captive delivery centers.

Our CPS services (comprising 27.8% of our net revenues for the year ended December 31, 2016) include strategic IT-related consulting, IT infrastructure change management, implementation of third-party packaged software such as SAP, Oracle, Salesforce.com, and implementation of

software and solutions we have developed, particularly in our domestic BFSI business. We typically deliver our CPS services at the client's site.

RDS (26.4% of net revenues for the year ended December 31, 2016)

Our RDS business provides outsourced product development services for leading international and Chinese corporations, primarily in the High Tech industry. Our RDS services include the testing of software and hardware, localization and globalization services, and outsourced development of software, middleware, and embedded software. We typically market our RDS services to senior technology and engineering executives at High Tech companies. Clients employ our RDS services to enhance product quality, lower product development costs, and shorten time-to-market of their products. We support our clients throughout their product development cycle for new software or hardware products, and we frequently support the development of subsequent versions and upgrades. Our RDS services are mainly delivered out of dedicated international delivery centers and involve significant integration into our clients' internal research and development processes. We believe that our RDS business is distinguished by our longstanding relationships with leading technology product development companies, our reputation for high quality and consistent delivery, and our strategic location in China, which is an important manufacturing base and market for our RDS clients.

BPO (2.7% of net revenues for the year ended December 31, 2016)

Our BPO business principally involves the delivery of comprehensive BPO solutions to global clients by leveraging quality standards and processes, in-depth knowledge, tools and expert resource management.

Overview of Operations

We are headquartered in Beijing, China, with 25,994 full time employees working out of offices and delivery centers across 34 cities in 11 countries and PRC special administrative regions as of December 31, 2016.

Revenues by Client

The following table sets forth our net revenues based on our clients' headquarters for the years ended December 31, 2014, 2015 and 2016:

Client Location	% of Net Revenues		
	2014	2015	2016
	(*)	(Successor)	(Successor)
Greater China:	39.7%	46.6%	51.7%
United States	39.4%	36.8%	32.9%
Japan	7.6%	6.6%	7.8%
Europe	7.9%	5.8%	4.4%
Asia South	5.4%	4.2%	3.2%

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

We are primarily focused on clients in the High Tech, BFSI and manufacturing industries. The following table sets forth the percentage of our net revenues by client industry for the years ended December 31, 2014, 2015 and 2016:

Client Industry	% of Net Revenues		
	2014 (*)	2015 (Successor)	2016 (Successor)
High Tech.....	51.6%	51.0%	50.4%
BFSI.....	32.4%	35.2%	33.5%
Manufacturing.....	14.2%	12.0%	14.1%
Others ⁽¹⁾	1.8%	1.8%	2.0%

(1) Includes retail, distribution, travel and transportation and public services.

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

The following table shows the distribution of our clients by net revenues for the years ended December 31, 2014, 2015 and 2016:

The number of clients	2014 (*)	2015 (Successor)	2016 (Successor)
> \$1 million, < \$5 million.....	88	81	106
> \$5 million, < \$10 million.....	16	20	16
> \$10 million.....	14	15	15

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

Sales and Marketing

Our sales and marketing strategy is targeted at increasing market awareness of our brand and service offerings, gaining new business from target clients, cross-selling our services to existing clients, and promoting repeat business from existing clients. We promote our services directly through our business development team. Our executive management team is also actively involved in business development and management of our key client relationships.

As of December 31, 2016, we had 219 sales professionals, with 177 based in Greater China, 18 based in the United States, 16 based in Japan, six based in Singapore, one based in Europe, and one based in Malaysia. We believe that we have a strong sales team located in our key target markets, and this gives us a competitive advantage over many other China-based offshore outsourced technology service providers that do not have as extensive international sales and marketing capabilities as ours. We also believe they do not benefit from the same level of client references, which is an important sales and marketing tool.

Our sales teams are responsible for cross-selling products to existing clients and identifying and initiating discussions with prospective clients. Each of our clients is assigned a dedicated account manager who is responsible for daily interaction with the client in conjunction with our international and Chinese domestic service delivery teams. We believe that our close interaction with clients enables us to actively identify and target new areas of business. For larger projects, we typically bid against other IT service providers in response to requests for proposals. Clients often cite the following as reasons for awarding us contracts: our flexible delivery model, comprehensive outsourcing services, scalability, superior quality and process excellence, industry expertise, experienced management team, talented professionals, strong track record and competitive pricing. In addition, client referrals and cross-selling provide objective validation of our competitive strengths. We often gain new business opportunities through referrals from existing clients to new clients or the different departments of our existing clients.

Our marketing team also augments our sales efforts through brand building and other corporate-level marketing efforts, including participation in industry trade shows, conferences and seminars, sponsorship of industry studies, site visits to existing and prospective clients, and targeted presentations to decision makers within existing and prospective clients.

Competition

We believe that the principal competitive factors in our markets are breadth and depth of service offerings, reputation and track record for high quality and on-time delivery of work, ability to tailor service offerings to client needs, industry expertise, ability to leverage Chinese domestic delivery platforms, service quality, price, scalability of infrastructure, financial stability, and sales and marketing skills. We face competition primarily from:

- global outsourced technology services companies such as Cognizant Technology Solutions, Infosys Limited, iGATE Corporation, Tata Consultancy Services and Wipro Technologies;
- China-based technology outsourcing service providers such as iSoftStone, Beyondsoft, Chinasoft, Dalian Hi-think Computer (DHC), Neusoft and SinoCom;
- certain divisions of large multinational technology firms; and
- in-house IT departments of our clients and potential clients.

China-based outsourced technology services companies compete with us primarily in the China and Japan markets, while global outsourced technology services companies compete with us primarily in the United States market. As a leading global consulting and technology services provider based in China, we have received CMMI DEV ML5, CMMI SVC ML3, CMMI DEV ML3, ISO 9001:2015, ISO/IEC 20000-1:2011 and ISO/IEC 27001:2013.

We were named as one of the leaders of 2016's best outsourcing service providers in The Global Outsourcing 100[®] ranking released by the IAOP[®]. We were also named as one of the Top 100 vendors in the 2016 IDC Financial Insights Fintech Rankings. However, many of our China-based and international competitors may have greater financial, human and marketing resources, a broader range of service offerings, greater technological expertise, more experienced personnel, longer track records, more recognizable brand names and more established relationships in industries that we currently serve or may serve in the future. Moreover, a number of the global offshore outsourced technology services companies with which we compete have established operations in China.

We cannot assure you that we will be able to compete successfully against our current or future competitors. See "Risk Factors — Risks Related to Our Business — We operate in an intensely competitive environment, which may lead to declining revenue growth or other circumstances that would negatively affect our results of operations."

Insurance

Some of our subsidiaries have commercial general liability insurance covering certain incidents to third parties that occur on or in some of our premises and money insurance covering certain incidents associated with any theft or attempted theft. We also maintain professional liability insurance for many of our subsidiaries, and one of our subsidiaries maintains key man life insurance for certain of its key personnel. However, they may still not be sufficient to cover all losses and liabilities we may incur.

We do not maintain business disruption insurance, which is available only to a limited extent in China. We have determined that the risks of disruption, cost of such insurance and the difficulties

associated with acquiring such insurance on commercially reasonable terms make it impractical for us to have such insurance. As a result, we face risks associated with not having business disruption insurance coverage. See “Risk Factors — Risks Related to Our Business — Because there is limited business and litigation insurance coverage available in China, any business disruption or litigation we experience might result in our incurring substantial costs and diverting significant resources to handle such disruption or litigation.”

Seasonality

Most of our net revenues are derived from contracts priced on a time-and-materials basis, and we therefore typically experience lower total net revenues during holiday periods, particularly during the Chinese New Year holiday in the first quarter of every year and various holidays throughout the year, when our delivery centers in the PRC operate with reduced staffing. We believe that our net revenues and results of operations will continue to be affected in the future by seasonal trends.

Employees

As of December 31, 2016, we had approximately 25,994 employees, including 23,817 professionals, 329 sales and marketing personnel (including 219 sales professionals and 110 other sales and marketing staff) and 1,848 administrative personnel. Of these employees 24,242 were located in our China offices, 538 in our Singapore offices, 526 in our North America offices, 340 in our Japan offices, 153 in our Malaysia offices, 110 in our Europe offices and 85 in our Australia offices. As of December 31, 2014 and December 31, 2015, we had approximately 22,397 and 25,769 employees, respectively. The attrition rates among our employees who have worked for us for at least six months were 21.3%, 21.4% and 20.5% for 2014, 2015 and 2016, respectively.

Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. We believe our company culture and reputation as a leading outsourced IT and research and development services provider based in China enhances our ability to recruit and retain high quality employees. We believe that we maintain a good working relationship with our employees and we have not experienced any significant labor disputes. Our employees have not entered into any collective bargaining agreements.

Recruitment

To ensure we have a large talent pool on hand to quickly respond to high resource demand, we have a centralized and dedicated recruiting team that interviews several hundred candidates per month based on core talent specifications that we have identified. Part of our recruitment model is a series of standardized recruitment interviews and technology skill assessment tools that are administered to all candidates. We have also developed a customized online recruiting management system to streamline our recruiting process, including monitoring of the candidate pool and the tracking of interview feedback and the status of outstanding employment offers.

We maintain relationships with over 514 colleges and universities within China from which we recruit on an ongoing basis. We have a talent academy featuring training and internship programs that provide us with a cost-effective method of attracting and developing entry-level employees. We believe this academy also helps to ensure scalability for future organizational and business expansion. We conduct lateral hiring primarily in China through a dedicated professional talent acquisition team that also engages recruiting firms to locate and attract qualified and experienced personnel.

Training and Development

Our training and development focuses on continuously developing middle managers, project leaders and new employees with maximum training resources for requisite skills and experience. We established our in-house Project Management Academy in 2008 to train and develop our pool of

project managers. The academy provides training for project specialists, program leaders, program managers and senior project managers. In 2016, we trained approximately 260 students in this program. Meanwhile, we have instituted a Project Management Professional (“PMP”) Certification program, which is a credential offered by the Project Management Institute to facilitate the continued education of our key project managers. More than 1,050 engineers have received the PMP certificate by the end of 2016. We established “Manager Training Camp” in 2011. The Manager Training Camp is a focused training program for project managers. In 2016, approximately 550 managers participated in the program where our corporate function heads served as instructors introducing company strategic development, operation process and policy. Ms. Katie Jin, our chief human resources officer, personally served as an instructor. In addition, we hired professional trainer to help the participants enhance their management skills.

In 2016, we launched our newly developed Pactera Competency Model (PCM) and Pactera Career Path (PCP). The PCM has been designed to provide a clear framework that defines the expectations and requirements for each career level and job category. The PCP provides our employees with a clear career development roadmap within Pactera. The PCM and PCP together will help to empower our employees to understand their career, ultimately driving a strong development culture.

In 2016, the overall training we provided covers 79,345 employees with 169,341 hours. We organized over 4,900 training sessions and conducted about six training programs including customized technical training series.

As required by PRC laws and regulations, our PRC operating subsidiaries participate in various employee benefit plans that are organized by PRC municipal and provincial governments, including housing, pension, medical, unemployment, work-related injury and maternity benefit plans. We make monthly payments to these plans in respect of employees of our PRC operating subsidiaries.

In recognition of our achievements in 2016, we have been awarded the following human resource professional awards:

- 2016 Top 100 Employer Excellence of China & Excellence in Employee Development Plan of 2016, by www.51job.com;
- 2016 Best Employer Award, by the International Association for Human Resource Information Management; and
- 2016 Best City Employer Award, by Zhilian Zhaopin.

In addition, Mr. Tiak Koon Loh (“Mr. Loh”), our chief executive officer, was awarded as one of the 2016 Annual Outstanding Managers in China by the International Association for Human Resource Information Management.

Intellectual Property

We regard our trademarks, domain names, software copyrights, patents and other intellectual property as important to our success. We use a combination of our clients’ systems, third-party software platforms and systems and, in some cases, our own proprietary software and platforms to provide our services.

We rely on the law to protect our proprietary intellectual property rights, and we have taken steps to enhance our rights by registering our intellectual property with government authorities where appropriate. We have registered our key brand “Pactera” as a trademark in the United States, China, Japan, European Union, Australia, Hong Kong and Singapore. As of the date of this annual report, we had approximately 68 registered domain names relating to our web sites, including www.pactera.com,

the primary URL for our web site. We have registered approximately 550 software copyrights relevant to our service offerings with the Copyright Protection Center of China.

We require our employees, independent contractors and, wherever possible, vendors to enter into confidentiality agreements upon commencement of their relationships with us. These agreements also provide that any confidential or proprietary information disclosed to these parties in the course of our business be kept confidential. In addition, expertise, coding precedents and generic application components generated or developed in our past operations enjoy protection in China as trade secrets under China's Anti-Unfair Competition Law. We customarily enter into licensing and non-disclosure agreements with our clients with respect to the use of their software systems and platforms. Our clients usually own the intellectual property in the software or systems we develop for them.

In spite of our efforts to protect our and our clients' intellectual property rights, we may not be able to prevent unauthorized parties from infringing upon or misappropriating our or our clients' intellectual property and other proprietary information. See "Risk Factors—Risks Related to Our Business—If our clients' proprietary intellectual property or confidential information is misappropriated by us, our employees or otherwise in violation of applicable laws and contractual agreements, we could be exposed to protracted and costly legal proceedings and lose clients." In addition, the laws of China may not protect intellectual property rights to the same extent as laws of the United States. Litigation may be necessary to enforce our intellectual property rights or to determine the validity and scope of the proprietary rights of others. Any such litigation could be time-consuming and expensive. See "Risk Factors—Risks Related to Our Business—We have limited ability to protect our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property."

We could be subject to intellectual property infringement claims as the number of our competitors grows and our product or service offerings overlap with competitive offerings. In addition, we may become subject to such claims since we may not always be able to verify the intellectual property rights of third parties from which we license a variety of technologies. See "Risk Factors—Risks Related to Our Business—We may be subject to third-party claims of intellectual property infringement, which could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services."

Regulation

Regulations Relating to Technology Outsourcing

China's State Council and a number of government ministries and agencies have issued a series of rules and regulations aimed at stimulating the growth of the technology outsourcing industry in China. The principal regulations governing the software outsourcing industry include:

- Certain Policies for Encouraging Development of the Software Industry and Integrated Circuits Industry (2000);
- Certain Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries (2011);
- Circular Concerning Relevant Questions Regarding Software Exports (2001);
- Circular on Printing and Distributing the Measures on Management and Statistics of Software Export (2001);
- Administrative Measures on Verification of Key Software Enterprises and Integrated Circuits Enterprises within the State Plan (2012);

- Certain Provisions on Protection of Information of Service Outsourcing Business Undertaken by Domestic Enterprises (2010);
- Computer Software Copyright Registration Procedures (2004, as amended);
- Circular on Promoting the Development of Service Outsourcing Industry (2009);
- Circular on Further Promoting the Development of Service Outsourcing Industry (2013);
- Regulations of the Protection of Computer Software (2013, as amended);
- Regulation on Protecting Safety of Computer Information Systems (2011, as amended);
- Opinions on Promoting the Accelerated Development of Service Outsourcing Industry (2014);
- Notice on Regulating the Payment for Software Copyright Registration (2015);
- Announcement of the State Administration of Taxation on Promulgation of the Measures on Preferential Treatments of Enterprise Income Tax (2015); and
- Notice on Relevant Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (2016).

Under these regulations, except for software developed for self-use, software products developed in China which have been registered with competent tax authorities are entitled to the incentives provided under Certain Policies on Further Encouraging the Development of the Software and Integrated Circuit Industries, such as preferential income tax treatments applicable to qualified software enterprises and preferential value added tax treatments applicable to software products. The certificates for qualified software enterprises are subject to annual inspection, failure of which in a given year will cause the enterprises to be unqualified for the relevant preferential treatments, and the competent tax authorities are entitled to reclaim the enterprise income tax preferential treatments the enterprises historically enjoyed.

Furthermore, enterprises engaged in the information technology outsourcing and technology BPO businesses are required to establish an information protection system and take various measures to keep clients' confidential information secret, including causing their employees and third parties who have access to clients' confidential information to sign confidentiality agreements and non-competition agreements.

Software enterprises engaged in software export (including research and development services) must conduct online registration of software export contracts with the administration center jointly established by the Ministry of Commerce ("MOFCOM"), MIIT, the State Statistics Bureau, SAFE, the State Administration of Taxation, and the Export-Import Bank of China and apply for Software Export Contract Registration Certificates in order to be entitled to tax refunds. We conduct such registrations on an ongoing basis.

Regulation Relating to Cybersecurity

The Standing Committee of the National People's Congress of the PRC promulgated the Cybersecurity Law of the PRC on November 7, 2016, which will take effect from June 1, 2017. Construction, operation, maintenance and use of networks within the territory of the PRC will be

subject to the law. Network operators in the PRC are required to perform the following obligations to ensure cyber security under a graded system of cyber security protection:

- formulating internal security management systems and operation manual, to specify the person in charge of cyber security and to define responsibilities in cyber security protection;
- taking technical measures to prevent computer virus, network attacks, network intrusions and other activities that endanger cyber security;
- taking technical measures to monitor and record network operation and cyber security status, and maintaining relevant logs for no less than six months as required;
- taking measures such as data classification, and backup and encryption of important data, etc.; and
- performing other obligations required by relevant laws and administrative regulations.

In addition, the Cybersecurity Law specifies that network products and services shall satisfy the mandatory requirements set forth in applicable national standards. Any provider of network products or services shall not install malwares. In case of identifying any cyber security risk such as security defect or bug, relevant product/service provider is required to take immediate remedial actions, timely inform users of the risk, and report the event to the competent authority.

Furthermore, the Cybersecurity Law systematically specifies requirements on user information protection applicable to network operator, and requires that a network operator should establish and improve its user information protection system. Network operators shall collect, store, and use individual information with consent from such individuals by lawful and proper means on a necessary basis. Network operators cannot collect individual user information that is not relevant to the services it provides, or distort or destroy individual information collected by it. Network operators are prohibited from disclosing without permission or selling individual information unless individual specifics are unidentifiable or retrievable. In addition, a network operator shall strengthen its management of information released by its users. If it finds any information that is prohibited by laws and administrative regulations from release or transmission, it shall immediately cease transmission of such information, and take measures such as deletion of relevant information to prevent dissemination of the same, and shall keep relevant record, and report the event to competent authorities. Also, a network operator is required to establish network information security complaint and reporting mechanisms, and to release the complaint and reporting channels to promptly accept and settle complaints and reports concerning network information security.

The Cybersecurity Law also introduces the concept of “critical information infrastructure” (“CII”), and imposes a higher level of cyber security protection obligations on the CII operators. For example a CII operator is generally required to store in the PRC personal information and important business data collected and generated during its business operations within the PRC. Failure to comply with this requirement may lead to the confiscation of illegal gains, fines, revocation of the business permit or even the business license. In addition, pursuant to the Cybersecurity Law, critical network equipment and dedicated network security products may not be made available in China market until they pass the security tests or verification by accredited evaluation agencies.

Regulations on Foreign Exchange and Foreign Currency Exchange

The principal regulation governing foreign exchange in China is the PRC Foreign Exchange Administration Regulations (1996), as amended. Under these regulations, the RMB is freely convertible for “current account transactions,” which include, among other things, dividend

payments, interest and royalties payments, trade and service-related foreign exchange transactions. For “capital account transactions” which principally include direct investments, loans, securities investments and repatriation of investments, prior approval of and registration with SAFE or its local branches is generally required.

Pursuant to the Administrative Rules on the Settlement, Sale and Payment of Foreign Exchange (1996), foreign-invested enterprises may only buy, sell and/or remit foreign currencies at banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account transactions, obtaining approval from SAFE or its local branches. Capital investments by foreign-invested enterprises outside of China are also subject to limitations, which include approvals by SAFE and other PRC governmental agencies.

On August 29, 2008, SAFE issued the Circular on the Relevant Operating Issues Concerning the Improvement of the Administration of the Payment and Settlement of Foreign Currency Capital of Foreign-Invested Enterprises (“SAFE Circular 142”), a notice regulating the conversion by a foreign-invested company of foreign currency into RMB that restricts how the converted RMB may be used. Pursuant to SAFE Circular 142, the RMB funds obtained from the settlement of foreign currency-denominated registered capital of a foreign-invested enterprise may only be used for purposes within the business scope as approved by the applicable governmental authority, and cannot be used for equity investments within the PRC unless such investments are otherwise provided for in the enterprise’s duly approved business scope. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency-denominated registered capital of a foreign-invested company. The use of such RMB capital may not be altered from the original purposes for the conversion as reported to SAFE without SAFE’s approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Violations of SAFE Circular 142 could result in severe monetary penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulation.

SAFE further reformed the foreign exchange administration system by issuing the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas on August 4, 2014. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas with a business scope covering “investment” to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC. On March 30, 2015, SAFE released the Notice on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-Invested Enterprises (“SAFE Circular 19”), which came into force and superseded SAFE Circular 142 beginning on June 1, 2015. SAFE Circular 19 has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, and some foreign exchange restrictions under SAFE Circular 142 have been lifted by SAFE.

On November 19, 2012, SAFE issued SAFE Circular 59, which became effective on December 17, 2012. It tightens the examination of the authenticity of settlement of net proceeds from an offering and requires that the settlement of net proceeds be in accordance with the description in the relevant prospectus. In addition, it substantially amended and simplified the foreign exchange-related procedures, which include, among other things, (i) the opening of various special purpose foreign exchange accounts (e.g. pre-establishment expenses account, foreign exchange capital account, guarantee account, etc.) no longer requires the approval of SAFE; (ii) multiple capital accounts for the same entity may be opened in different provinces; (iii) reinvestment of RMB proceeds by foreign investors in China no longer requires SAFE approval or verification; and (iv) remittance of foreign exchange profits and dividends by a foreign-invested enterprise to its foreign shareholders no longer requires SAFE approval.

On February 28, 2015, SAFE released the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (“SAFE Circular 13”), which came into effect on June 1, 2015. According to this notice, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 discussed below.

On January 26, 2017, SAFE released the Notice on Further Promoting the Administration and Reform of Foreign Exchange and Improving Review of Authenticity and Compliance. Under this notice, SAFE emphasized that local banks shall review documentary evidences with respect to remittance of foreign exchange profits from China or to outbound direct investments under the principle of authenticity and compliance, and further expanded the scope of documentary evidences the local banks shall review.

Regulations on Dividend Distribution

The PRC Wholly Foreign-owned Enterprise Law (1986), as amended, the Implementing Rules of the Wholly Foreign-owned Enterprise Law (1990), as amended, the PRC Chinese-Foreign Equity Joint Venture Law (1979), as amended, the Implementing Rules of the PRC Chinese-Foreign Equity Joint Venture Law (1983), as amended, and the PRC Company Law (1993), as amended, are the principal regulations governing distribution of dividends of wholly foreign-owned enterprises and Chinese-foreign equity joint ventures in China. Under these regulations, wholly foreign-owned enterprises and Chinese-foreign equity joint ventures in China may, subject to the ongoing compliance with applicable foreign exchange regulations, distribute dividends only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, each wholly foreign-owned enterprise or Chinese-foreign equity joint venture in China is required to contribute at least 10% of its annual after-tax profits each year, if any, determined in accordance with PRC accounting standards to its general reserves fund until the cumulative amount in the reserve fund reaches 50% of the enterprise’s registered capital, and to set aside a certain amount of its after-tax profits each year, if any, to fund its staff welfare fund at the discretion of the board of directors of the relevant entity. These reserve funds may not be distributed as cash dividends.

Also, each Chinese-foreign equity joint venture in China is required to set aside a certain amount of its after-tax profits each year, if any, to fund its enterprise expansion fund. The specific size of the staff welfare fund or enterprise expansion fund is subject to the discretion of the board of directors of the relevant entity. These reserve funds can only be used for specific purposes and are not transferable to the company’s parent in the form of loans, advances or dividends. Furthermore, if PRC entities incur debt on their own behalf in the future, the instrument governing the debt may restrict their ability to pay dividends or make other payments to their shareholders.

SAFE Circular 37

On July 4, 2014, the SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Overseas Investment and Financing and Roundtrip Investment through Special Purpose Vehicles, or SAFE Circular 37, which replaced the former Circular on Issues Relating to the Administration of Foreign Exchange in Fund-Raising and Round Trip Investment Activities of Domestic Residents Conducted via Offshore Special Purpose Vehicles (generally known as SAFE Circular 75) promulgated by the SAFE on October 21, 2005.

SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as

a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. In addition, SAFE Circular 37 requires deregistration with local branches of SAFE in the event that the PRC residents no longer hold any beneficial interests in the special purpose vehicles. The failure of our former beneficial owners who are PRC residents to complete the deregistration may subject them or our PRC subsidiaries to fines and legal sanctions. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

We are committed to complying, and to ensuring that our shareholders and beneficial owners who are PRC citizens or residents comply, with SAFE Circular 37 requirements. We have urged our shareholders and beneficial owners who are the PRC residents to make the necessary applications and filings as required under SAFE Circular 37 and other related rules. Prior to the MOE, we understand that our PRC citizen or resident beneficial owners had completed initial registrations with the local counterpart of SAFE in Dalian under SAFE Circular 75. With respect to VanceInfo, Mr. Chris Shuning Chen, our former chairman, Mr. Stanley Ying Zhou, our former executive vice president, and Mr. Kevin Zhong Liu, one of our former employees, had made the initial SAFE registration with respect to their investment and beneficial ownership prior to the MOE under SAFE Circular 75 and have applied to amend their initial registrations as a result of the MOE under SAFE Circular 37. However, as a result of the 2014 Merger, we understand that our PRC citizens or resident beneficial owners who no longer hold any beneficial ownership in us are required to deregister their previous registration with the local counterparts of SAFE, and certain of our PRC subsidiaries which have registered with the local counterparts of SAFE as roundtrip-invested enterprises are also required to amend their registration to remove their identification as roundtrip-invested enterprises. Our subsidiaries, Dalian Pactera Technology Limited (“Pactera Dalian”) and Shenzhen Pactera Technology Limited (“Pactera Shenzhen”) have completed the amendment registrations to remove the roundtrip-invested enterprise identification with the local counterparts of SAFE, while our other PRC subsidiaries are still preparing for the application for such amendment registrations with the relevant local counterparts of SAFE. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37 from June 1, 2015. Following the 2017 Merger, we became indirectly invested by HNA, a PRC company. As such, our foreign invested enterprises in China are required to make amendment registration to reflect the change. We plan to complete the aforesaid amendment registration as soon as practicable. However, we cannot assure you that the amendment registration could be completed in a prompt way due to uncertainty in the regulations and practice of local counterparts of SAFE and banks. In addition, we cannot assure you that all of our former and future shareholders or beneficial owners who are PRC citizens or residents have complied with or will comply with, and will in the future make or obtain any applicable registrations or approvals or make any deregistration required by SAFE Circular 37 or other related regulations. The failure of our beneficial owners who are PRC residents to register, amend or deregister their SAFE registrations in a timely manner pursuant to SAFE Circular 37, the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37, or the failure of our foreign invested enterprises in China to comply with relevant SAFE regulations may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or amend the registrations may also limit our ability to contribute additional capital to our PRC subsidiaries or receive dividends or other distributions from our PRC subsidiaries or other proceeds from disposal of our

PRC subsidiaries, or we may be penalized by SAFE. See “Risk Factors—Risks Related to China—Restrictions under PRC law on our PRC subsidiaries’ ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to HNA Ecotech, make payments under the notes and otherwise fund and conduct our businesses”

Employee Stock Option Plans

In December 2006, the People’s Bank of China promulgated the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Regulations, setting forth the requirements for foreign exchange transactions by individuals (both PRC and non-PRC citizens) under the current account and the capital account. In January 2007, SAFE issued the implementation rules for the Individual Foreign Exchange Regulations which, among other things, specified the approval and registration requirement for certain capital account transactions such as a PRC citizen’s participation in employee share ownership and share option plans of overseas listed companies.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies (the “Share Option Rules”), which supersedes the Operating Procedures on Administration of Foreign Exchange for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans, etc. of Overseas Listed Company issued by SAFE in March 2007.

Under the Share Option Rules, PRC citizens or residents habitually residing in the PRC continuously for over one year, with a few exceptions, who have been granted shares or share options by an overseas listed company according to its employee share option or share incentive plan are required to, through the PRC subsidiary of such overseas listed company to appoint a qualified PRC agent, register with SAFE or its local counterparts and complete certain other procedures related to the share-holding plan, share option plan or other similar share incentive plans. Concurrent with the registration with SAFE or its local counterparts, the qualified PRC agent is required to obtain an approval from SAFE for an annual allowance for the foreign exchanges in connection with the share-holding or exercise of share option, and an approval for opening a special foreign exchange account at a PRC domestic bank to hold the funds required in connection with share purchases or share option exercises, returned principals or profits upon sale of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, foreign exchange income of the participating PRC residents received from the sale of share and dividends distributed by the overseas listed company are required to be fully remitted into such special domestic foreign currency account before distribution to such participants. Furthermore, the State Administration of Taxation has issued certain circulars concerning employee share options or restricted shares, under which, the participating PRC residents who exercise share options or are granted restricted shares shall be subject to PRC individual income tax. The PRC agents have obligations to file documents relating to employee share options or restricted shares with relevant tax authorities and to withhold individual income taxes of those employees who exercise their share options. In addition, the PRC agents are required to amend or deregister the registrations with SAFE or its local counterparts in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Stock Option Rules. We and our PRC resident employees who have been granted share options are subject to these rules. In addition, pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose companies.

Regulation on Employment

The PRC Labor Contract Law and its implementation rules provide requirements concerning employment contracts between an employer and its employees. If an employer fails to

enter into a written employment contract with an employee within one year from the date on which the employment relationship is established, the employer must rectify the situation by entering into a written employment contract with the employee and pay the employee twice the employee's salary for the period from the day following the lapse of one month from the date of establishment of the employment relationship to the day prior to the execution of the written employment contract. The Labor Contract Law and its implementation rules also require compensation to be paid upon certain terminations. In addition, if an employer intends to enforce a non-compete provision with an employee in an employment contract or non-competition agreement, it has to compensate the employee on a monthly basis during the term of the restriction period after the termination or ending of the labor contract. Employers in most cases are also required to provide a severance payment to their employees after their employment relationships are terminated.

Enterprises in China are required by PRC laws and regulations to participate in certain employee benefit plans, including social insurance funds, namely a pension plan, a medical insurance plan, an unemployment insurance plan, a work-related injury insurance plan and a maternity insurance plan, and a housing provident fund, and contribute to the plans or funds in amounts equal to certain percentages of salaries, including bonuses and allowances, of the employees as specified by the local government from time to time at locations where they operate their businesses or where they are located.

On December 28, 2012, the PRC Labor Contract Law was amended to impose more stringent requirements on labor dispatch which became effective on July 1, 2013. Pursuant to amended PRC Labor Contract Law, the dispatched contract workers shall be entitled to equal pay for equal work as a fulltime employee of an employer, and they shall only be engaged to perform temporary, ancillary or substitute works, and an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees. "Temporary work" means a position with a term of less than six (6) months; "ancillary work" means a non-core business position that provides services for the core business of the employer; and "substitute worker" means a position that can be temporarily replaced with a dispatched contract worker for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch, or the Labor Dispatch Provisions, promulgated by the Ministry of Human Resources and Social Security on January 24, 2014, which became effective on March 1, 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its total employees (including both directly hired employees and dispatched contract workers); (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees on March 1, 2014, the employer shall formulate a plan to reduce the number of its dispatched contract workers to below the statutory cap prior to March 1, 2016 (such plan shall not invalidate the employment contracts or dispatch agreements entered into prior to December 28, 2012), and (iii) such plan shall be filed with the local bureau of human resources and social security. In addition, the employer shall not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of the total number of its employees. Furthermore, the Labor Dispatch Provisions shall apply where an employer uses workers in the same way as labor dispatching under the name of contracting or outsourcing arrangement, etc.

As of the date of this Annual Report, we have not received any warning or notice of potential negative action by relevant labor authorities regarding our labor dispatch arrangement. However, if we are found to be in violation of the rules regulating dispatched contract workers, we may be ordered to rectify the non-compliance by entering into written employment contracts with our dispatched contract workers, and if we fail to rectify the non-compliance within the time period specified by the labor authority, we may be subject to a penalty ranging from RMB5,000 (US\$750) to RMB10,000 (US\$1,500) per dispatched worker.

Risk Factors

Risks Related To Our Business

Global economic downturn or any future economic downturn, particularly in our key client geographies of the United States, Greater China, Japan or Europe, could adversely affect our business.

In recent years, the global financial markets experienced significant disruptions and the United States, Japan, Europe and other economies went into a recession. The recovery from the recession was uneven and it is facing new challenges. Economic conditions in China are also sensitive to global economic conditions, changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Since recording its last double-digit growth (10.4%) in gross domestic product in 2010, the Chinese economy slowed significantly within the past six years, with a growth of 6.7% in gross domestic product recorded in 2016, and may continue to experience lower rates of growth in future periods. In 2014, 2015 and 2016, respectively, 39.7%, 46.6% and 51.7% of our net revenues were derived from clients headquartered in Greater China, 39.4%, 36.8% and 32.9% of our net revenues were derived from clients headquartered in the United States, 7.9%, 5.8% and 4.4% of our net revenues were derived from clients headquartered in Europe and 7.6%, 6.6% and 7.8% of our net revenues were derived from clients headquartered in Japan; we expect that a significant majority of our net revenues will continue to be derived from clients in these geographic areas in the future. If the economies of the Greater China, United States, Japan, Europe or other countries where our clients are located experience continuing difficulties in recovering from the global economic downturn, or if there is another general economic downturn or a recession in these countries, our clients and potential clients in these countries may substantially reduce their budgets for outsourced technology services and modify, delay or cancel plans to purchase our services. Additionally, if our clients' operating and financial performance deteriorates, they may not be able to pay, or may delay payment of, amounts owed to us. Any or all of these events could cause a decline in our net revenues and materially and adversely affect our business and results of operations.

If we do not succeed in attracting new clients for our technology services and/or growing revenues from existing clients, we may not achieve our revenue growth goals.

We plan to significantly expand the number of clients we serve to diversify our client base and grow our revenues. Revenues from a new client often rise quickly over the first several years following our initial engagement as we expand the services that we provide to that client. Therefore, obtaining new clients is important for us to achieve rapid revenue growth. Our ability to attract new clients, as well as our ability to grow revenues from our existing clients, depends on a number of factors, including our ability to offer high quality technology services at competitive prices, the strength of our competitors and the capabilities of our marketing and sales teams to attract new clients and to sell additional services to existing clients. If we fail to attract new clients or to grow our revenues from existing clients in the future, we may not be able to grow our revenues as quickly as we anticipate or at all.

If we are not successful in expanding our service offerings and managing increasingly large and complex projects, we may not achieve our financial goals and our results of operations may be adversely affected.

We have been expanding, and plan to continue to expand, the nature and scope of our service offerings. We also plan to add other new capabilities within our existing service lines. The success of our expanded service offerings is dependent, in part, upon demand for such services by new and existing clients, allocation of our resources between existing and new service lines efficiently and our ability to meet this demand in a cost-competitive and effective manner. Moreover, we cannot assure you that we will be able to attract existing and new clients for such new services or effectively meet our clients' needs.

To successfully market our expanded service offerings and obtain larger and more complex projects, we need to establish closer relationships with our clients and develop a thorough understanding of their operations. In addition, we may face a number of challenges managing larger and more complex projects, including:

- maintaining high quality control and process execution standards;
- maintaining high resource utilization rates on a consistent basis;
- maintaining productivity levels and implementing necessary process improvements;
- controlling costs; and
- maintaining close client contact and high levels of client satisfaction, while at the same time preserving continuity in personnel engaged in a particular project while also rotating personnel to ensure that periodic wage adjustments do not adversely impact our margins on a particular project.

Our ability to successfully manage large and complex projects depends significantly on the skills of our management personnel and professionals, some of whom do not have experience managing large-scale or complex projects. In addition, large and complex projects may involve multiple engagements or stages, and there is a risk that a client may choose not to retain us for additional stages or may cancel or delay additional planned engagements. Such cancellations or delays may make it difficult to plan our project resource requirements.

If we fail to successfully market our expanded service offerings or obtain engagements for large and complex projects, we may not achieve our revenue growth and other financial goals. Even if we are successful in obtaining such engagements, a failure by us to effectively manage these large and complex projects could damage our reputation, cause us to lose business, impact our net margins and adversely affect our results of operations.

If we are not successful in integrating and managing our past and future strategic acquisitions, our business and results of operations may suffer and we may incur exceptional expenses or write-offs.

We have completed numerous acquisitions in recent years. For example, in 2015, we acquired 100% of the equity interest of a China-based IT outsourcing company in the BFSI industry and certain business of a China-based company whose primary business is to provide IT services to banking and finance companies in China. In 2016, we acquired a business team from a US-based IT service company and a US-based digital services company whose primary business is to provide network digital services to customers in diversified industries. We further entered into a stock purchase agreement on March 31, 2017 to acquire a Delaware corporation whose main business is to provide digital platform services to customers for their digital strategy and development and implementation of digital platform projects, which acquisition is expected to be completed in the second half of 2017 subject to certain terms and conditions. We intend to continue to pursue strategic acquisitions in line with our business strategy and expand into new geography. While we identified and may identify expected synergies, cost savings and growth opportunities in connection with these transactions prior to their completion, we may not achieve, and have not always achieved, the expected benefits.

For companies we have acquired or may acquire in the future, we could have difficulty in assimilating the target company's personnel, operations, products, services and technology into our operations. The primary value of many potential targets in the outsourcing industry lies in their skilled professionals and established client relationships. Transitioning these types of assets from the acquired companies to our business can be particularly difficult due to different corporate cultures and values, geographic distance and other intangible factors. Some newly acquired employees may decide not to work with us or to leave shortly after their move to our company and some acquired clients may

decide to discontinue their commercial relationships with us. See “—We face challenges hiring and retaining highly skilled professionals, especially senior engineers, project managers and mid-level technology professionals. Our results of operations and ability to effectively serve our clients may be negatively affected if we cannot attract and retain highly skilled professionals.” Also, although we believe such risks are remote based on our due diligence performed prior to completing our acquisitions, we may be unsuccessful in obtaining qualifications or consents necessary for the operation of all or part of the acquired businesses. These difficulties could disrupt our ongoing business, distract our management and current employees and increase our expenses, including causing us to incur significant one-time expenses, impairment charges and write-offs. Furthermore, any acquisition or investment that we attempt, whether or not completed, or any media reports or rumors with respect to any such transactions, may adversely affect our results of operations and financial condition.

We may not succeed in identifying suitable acquisition targets, which could adversely affect our ability to expand our operations and service offerings and enhance our competitiveness.

We have pursued and may continue to pursue strategic acquisition opportunities to increase our scale and geographic presence, expand our service offerings and capabilities and enhance our industry and technical expertise. However, it is possible that we may not identify suitable acquisition or investment candidates, or, if we do identify suitable candidates, we may not complete those transactions on terms commercially favorable to us or at all. Any inability by us to identify suitable acquisition targets or investments or to complete such transactions could adversely affect our competitiveness and our growth prospects.

We have contingent earn-out obligations in connection with our past mergers and acquisitions.

In connection with our past mergers and acquisitions, we have incurred the obligation to make contingent earn-out payments if certain financial targets of the acquired businesses are met over a specified period. Contractual provisions relating to the contingent earn-out obligation may result in the risk of litigation relating to the calculation of the earn-out obligation amount due as well as the operation of the acquired business. Such litigation could be expensive and divert management attention and resources. We can give no assurance that our contingent obligations, including the associated covenants relating to the operation of the acquired business, will not otherwise adversely affect our business, liquidity, capital resources or results of operations.

We face challenges hiring and retaining highly skilled professionals, especially senior engineers, project managers and mid-level technology professionals. Our results of operations and ability to effectively serve our clients may be negatively affected if we cannot attract and retain highly skilled professionals.

The success of our business is dependent to a significant degree on our ability to attract and retain highly skilled professionals. In China, there is currently a shortage of, and significant competition for, professionals who possess the technical skills and experience necessary to act as senior engineers, project managers and consultants for IT and research and development outsourcing projects, and we believe that such professionals are likely to remain a limited resource for the foreseeable future. Moreover, similar to India, the outsourced technology industry in China has experienced significant levels of employee attrition. The attrition rate among our employees who have worked for us for at least six months was 21.3%, 21.4% and 20.5% for 2014, 2015 and 2016, respectively. Due to the cost of hiring and training new professionals, high attrition rates can negatively affect our cost of revenues and net income. In addition, we may face increasing difficulties recruiting the talent we need to staff our outsourcing facilities in less developed cities in China with lower average wages and living standards. If we are unable to hire and retain highly skilled professionals, our ability to bid on, obtain and effectively execute new projects may be impaired, which would adversely affect our results of operations.

Any inability to manage the growth of our operations could disrupt our business and reduce our profitability.

We have experienced stable growth in recent years. Our net revenues grew from \$712.6 million in 2014 to \$777.3 million in 2015 and \$806.1 million in 2016. Our operations have also expanded in recent years through increases in our service delivery capabilities and acquisitions of complementary businesses. We expect our operations to grow in terms of both headcount and geographic locations. Our stable growth has placed and will continue to place significant demands on our management and our administrative, operational and financial infrastructure. Continued expansion increases the challenges we face in:

- recruiting, training and retaining a sufficient number of skilled technical, sales and management personnel while streamlining overstaffed departments and reducing administrative expenses;
- creating and capitalizing upon economies of scale;
- managing a larger number of clients in a greater number of industry sectors;
- managing our days of sales outstanding;
- maintaining effective oversight over personnel and offices;
- coordinating work among international and Chinese domestic sites and project teams and maintaining high resource utilization rates;
- integrating new management personnel and expanded operations while preserving our culture, values and entrepreneurial environment; and
- developing and improving our internal systems and infrastructure, particularly our financial, operational and communications systems.

We operate in an intensely competitive environment, which may lead to declining revenue growth or other circumstances that would negatively affect our results of operations.

The markets in which we compete are changing rapidly and we face intense competition from both global providers of outsourced technology services as well as those based in China. There are relatively low barriers to enter into our markets and we have faced, and expect to continue to face, additional competition from new market entrants. We believe that the principal competitive factors in our markets are breadth and depth of service offerings, reputation and track record, ability to tailor service offerings to client needs, industry expertise, ability to leverage Chinese domestic delivery platforms, service quality, price, scalability of infrastructure, financial stability, and sales and marketing skills. We face competition or competitive pressure primarily from:

- global outsourced technology services companies such as Cognizant Technology Solutions, Infosys Limited, iGATE Corporation, Tata Consultancy Services and Wipro Technologies;
- China-based technology outsourcing service providers such as iSoftStone, Beyondsoft, Chinasoftware, Dalian Hi-think Computer (DHC), Neusoft and SinoCom;
- certain divisions of large multinational technology firms; and
- in-house IT departments of our clients and potential clients.

China-based outsourced technology services companies compete with us primarily in the China and Japan markets, while global outsourced technology services companies compete with us primarily in the United States and Europe markets. Many of our international competitors have significantly greater financial, human and marketing resources, a broader range of service offerings, greater technological expertise, more experienced personnel, longer track records, more recognizable brand names and more established relationships in industries that we serve or may serve in the future. Moreover, a number of our international competitors have established operations in China.

To compete successfully in our markets, we will need to develop new service offerings and enhance our existing service offerings while maintaining price competitiveness. If and to the extent we fail to develop value-adding service offerings that differentiate us from our competitors, we may need to compete largely on price, which may cause our operating margins to decline. Our ability to compete also depends in part on a number of factors beyond our control, including the ability of our competitors to attract, train, motivate and retain highly skilled professionals, the price at which our competitors offer comparable services and our competitors' responsiveness to client needs. In particular, outsourcing of technology services by domestic Chinese companies is a relatively recent development and it is not yet clear how this industry may develop. Our inability to compete successfully against competitors and pricing pressures could result in lost clients, loss of market share and reduced operating margins, which would adversely impact our results of operations.

Our competitiveness depends significantly on our ability to keep pace with the rapid changes in information technology. Failure by us to anticipate and meet our clients' technological needs could adversely affect our competitiveness and growth prospects.

The technology services market is characterized by rapid technological changes, evolving industry standards, changing client preferences and new product and service introductions. Our future success will depend on our ability to anticipate these advances and develop new service offerings to meet client needs. We may fail to anticipate or respond to these advances in a timely or cost-effective manner or, if we do respond, the services or technologies we develop may fail in the marketplace. Furthermore, services or technologies that are developed by our competitors may render our services less competitive or obsolete. In addition, new technologies may be developed that allow our clients to more cost-effectively perform the services that we provide, thereby reducing demand for our outsourced technology services. Our failure to address these developments could have a material adverse effect on our competitiveness and our ability to meet our growth targets.

Our revenues are highly dependent on a limited number of clients, and the loss of, or any significant decrease in business from, any one or more of our major clients could adversely affect our financial condition and results of operations.

We have in the past derived, and believe that we will continue to derive, a significant portion of our revenues from a limited number of clients. In 2014, our largest client, a United States-based multinational IT company, accounted for 9.4% of our net revenues and our ten largest clients accounted for a combined 33.1% of our net revenues. In 2015, such United States-based multinational IT company accounted for 9.0% of our net revenues and our ten largest clients accounted for a combined 32.9% of our net revenues. In 2016, such United States-based multinational IT company accounted for 7.5% of our net revenues and our ten largest clients accounted for a combined 32.6% of our net revenues.

The volume of work performed for specific clients is likely to vary from year to year, especially since we are generally not our client's exclusive technology outsourcing service provider. A significant client in one year may not provide the same level of revenues for us in any subsequent year. The technology outsourcing services we provide to our clients, and the revenues and income from those services, may decline or vary as the type and quantity of technology outsourcing and other services we provide change over time. In addition, our reliance on any individual client for a

significant portion of our revenues may give that client a certain degree of pricing leverage against us when negotiating contracts and terms of services with us.

There are a number of factors that could cause us to lose major clients. Because many of our engagements involve functions that are critical to the operations of our clients' businesses, any failure by us to meet a client's expectations could result in cancellation or non-renewal of the engagement. In addition, our clients may decide to reduce spending on technology services from us due to a challenging economic environment or other factors, both internal and external, relating to their business such as corporate restructuring or changing their outsourcing strategy by moving more work in-house or to other providers. For example, one of our major clients, a European mobile handset manufacturer, reduced its headcount globally and closed a number of plants in 2014, 2015 and 2016, which has resulted in and may continue to result in a decline in its demand for our services. Furthermore, our clients, some of whom have experienced rapid changes in their business, substantial price competition and pressures on their profitability, may demand price reductions, automate some or all of their processes or reduce the services to be provided by us, any of which could reduce our profitability.

The loss of any of our major clients, or a significant decrease in the volume of work they outsource to us or the price at which we sell our services to them, could adversely affect our financial condition and results of operations.

The non-competition clauses contained in some of our business contracts with our existing clients may affect our ability to explore new business relationships and to procure new clients.

Some of our business contracts contain non-competition clauses which restrict our ability to provide services to competitors of our existing clients. Such clauses provide that, during the term of the contract or for a certain period of time after the completion of the service, we or our employees who worked for a client may not provide similar services to such client's competitors. Some of our contracts provide that, although we are free to render other services to clients' customers prior to the receipt of statements of work, from our clients, such services may not create any conflicts of interest with the services we provide to those clients, and we must obtain our clients' prior written consent to continue providing services to their customers before we begin rendering similar services to our clients. In addition, some contracts restrict us from competing with the client in quoting, tendering or offering services or solutions, whether by ourselves or with others, directly or indirectly, to such client's customers. These restrictions may hamper our ability to compete for and provide services to other clients in a specific industry or market in which we have expertise and may adversely affect our revenues and future profitability.

In addition, some of VanceInfo's business contracts executed prior to the MOE contain similar non-competition clauses. As such, we currently provide services to some customers and competitors of our existing clients as a result of the MOE, which may constitute a breach under the related client contracts or result in the termination of such client contracts, which in turn could adversely affect our business, future profitability and client relationships.

Our clients operate in a limited number of industries. Factors that adversely affect these industries or IT or research and development spending by companies within these industries may adversely affect our business.

We derive a large proportion of our revenues from clients which operate in a limited number of industries, including High Tech, BFSI, and manufacturing. In 2016, for example, we derived 50.4%, 33.5%, and 14.1% of our revenues, respectively, from clients operating in these industries. Our business and growth largely depend on continued demand for our services from clients and potential clients in these industries and those industries where we are focusing expansion efforts. Demand for our services, and technology services in general, in any particular industry could be affected by multiple factors outside of our control, including a decrease in growth or growth prospects of the

industry, a slowdown or reversal of the trend to outsource technological applications, or consolidation in the industry. In addition, serving a major client within a particular industry may effectively preclude us from seeking or obtaining engagements with direct competitors of that client if there is a perceived conflict of interest. Any significant decrease in demand for our services by clients in these industries, or other industries from which we derive significant revenues in the future, may reduce the demand for our services.

The inability of our clients to pay the receivable balance on their accounts with us may expose us to the credit risks of such clients and may adversely affect our results of operations and liquidity.

We maintain allowance for doubtful accounts based upon information available to us to make estimates, considering historical experience and other factors surrounding the credit risk of specific clients. However, if we additionally identify that collection from certain other significant accounts is in doubt, we may be exposed to the credit risk of such clients and may have to provide for the provision of those doubtful accounts. For example, in the fiscal year ended December 31, 2016, we recorded bad debt provisions of \$1.7 million, mainly resulting from our identification of the credit risk with certain clients. The inability of our clients to pay the receivable balance on their accounts may require us to make bad debt provisions and may adversely affect our results of operations and liquidity.

We enter into fixed-price contracts with some of our clients, and our failure to accurately estimate the resources and time required for these contracts could negatively affect our results of operations.

Some of our outsourced technology services are provided on a fixed-price basis that requires us to undertake significant projections and planning related to resource utilization and costs. Net revenues from fixed-price contracts accounted for 16.6% and 16.9% of our total net revenues in 2015 and 2016, respectively. Although our past project experience helps to reduce the risks associated with estimating, planning and performing fixed-price contracts, we bear the risk of cost overruns and completion delays in connection with these projects. Conversely, an overestimation of our costs may result in our submitting uncompetitive bids and loss of business. Any failure to accurately estimate the resources and time required for a project, wage inflation or any other factors that may impact our costs to complete the project, could adversely affect our profitability and results of operations.

Many of our client contracts typically can be terminated by our clients without cause and with little or no notice or penalty. Any termination of our significant contracts could negatively impact our revenues and profitability.

Our clients typically retain us on a non-exclusive, project-by-project basis. Many of our client contracts can be terminated by our clients with or without cause, with less than three months' notice and without penalty. Failure to meet contractual requirements could result in cancellation or non-renewal of a contract. There are a number of factors relating to our clients that are outside of our control which might lead them to terminate a contract or project with us, including:

- client financial difficulties;
- a change in strategic priorities resulting in elimination of the impetus for the project or a reduced level of technology spending;
- a change in outsourcing strategy resulting in moving more work to the client's in-house technology departments or to our competitors;
- the replacement by our clients of existing software with other software packages supported by licensors; and
- mergers and acquisitions or significant corporate restructurings.

In addition, many of the master service agreements we have entered into with our clients require us to purchase and maintain specified insurance coverage during the terms of the master service agreements, including professional liability insurance, commercial general liability insurance, umbrella insurance and workers compensation insurance. As the insurance industry in China is still in an early stage of development, a number of these types of insurance are not available on reasonable terms in China. We have purchased, among other things, professional liability insurance for our key professionals and commercial general liability insurance for our facilities and business operation in certain areas, but we still do not satisfy all the contractual requirements of certain of our key clients. Although to date no client has brought any material claims against us for such failure, our clients have the right to terminate these master service agreements. Any termination of significant contracts, especially if unanticipated, could have a negative impact on our future revenues and profitability.

Furthermore, in some of our master service agreements, our clients are also entitled to request us to transfer, to them or their designees, the assets of our domestic development centers in China (“CDCs”) that serve them and all of the operating relationships, including leases for the premises of the CDCs, employment relationships with the employees dedicated to the CDCs and contracts with subcontractors, at a pre-agreed transfer price which is generally a multiple of our monthly service fees from the relevant client for CDC services prior to the transfer. This transfer fee will either be reduced ratably based on the elapsed operation term of the CDC or subject to a maximum amount. In addition to the above amounts, the relevant client is also required to pay the lower of fair market value or net book value for the assets to be transferred that have not already been charged to the client. If our clients exercise these rights, we may lose some of our business and key employees, or may be required to transfer our assets and employees to a third party, and our losses may not be fully covered by the contractual payment.

Most of our engagements with clients are for a specific project only and do not necessarily provide for subsequent engagements. If we are unable to generate a substantial number of new engagements for projects on a continual basis, our business and results of operations will be adversely affected.

Our clients generally retain us on an engagement-by-engagement basis in connection with specific projects rather than on a recurring basis under long-term contracts. Although a substantial majority of our revenues are generated from repeat business, which we define as revenues from a client who also contributed to our revenues during the prior fiscal year, our engagements with our clients are typically for projects that are singular and often short-term in nature. Therefore, we must seek out new engagements when our current engagements are successfully completed or are terminated, and we are constantly seeking to expand our business with existing clients and secure new clients for our services. If we are unable to generate a substantial number of new engagements on a continual basis, our business and results of operations will be adversely affected.

Some of our client contracts contain provisions which, if triggered, could adversely affect our future profitability.

Our contracts with certain of our clients contain provisions that provide for downward revision of our prices under certain circumstances. For example, certain client contracts provide that if during the term of the contract we were to offer similar services to any other client on terms and conditions more favorable than those provided in the contract, we would be obliged to offer equally favorable terms and conditions to the client prospectively for future work performed. This may result in lower revenue and profits in future periods. Certain other contracts allow a client to request a benchmark study comparing our pricing and performance with that of other service providers for comparable services. Based on the results of the study and depending on the reasons for any unfavorable variance, we may be required to make improvements in the service we provide for the remaining term of the contract. While this has not happened in the past, the triggering of any of the provisions described above could adversely affect our future profitability.

Furthermore, the contracts of HiSoft and VanceInfo with certain of their respective clients executed prior to the MOE contain change-of-control clauses, which provide that the contracts may be terminated with immediate effect by such clients' written notice without incurring any liability in the event that there is a direct or indirect change of ownership of HiSoft or VanceInfo, or there is a material change in the key personnel of HiSoft or VanceInfo. Such change-of-control clauses may be triggered as a result of the MOE. In addition, such change-of-control clauses and other change-of-control clauses contained in our contracts with our clients executed after the MOE may be triggered as a result of the 2014 Merger or the 2017 Merger. Although we have not received any notice from any such clients to terminate their contracts due to the MOE, the 2014 Merger or the 2017 Merger, if we are unable to obtain the consent of such clients as to the consummation of the MOE as well as the consummation of the 2014 Merger and the 2017 Merger, the contracts with these clients may be terminated in the future, which could adversely affect our business, future profitability and our relationships with such clients.

Our success depends to a substantial degree upon our senior management and key personnel, and our business operations may be negatively affected if we fail to attract and retain highly competent senior management.

We depend to a significant degree on our senior management and key personnel. However, competition for senior management and key personnel in our industry is intense, and we may be unable to retain our senior management or key personnel or attract and retain new senior management or other key personnel in the future. If one or more members of our senior management team or key personnel resign, it could disrupt our business operations and create uncertainty as we search for and integrate a replacement. If any member of our senior management leaves us to join a competitor or to form a competing company, any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. Additionally, there could be unauthorized disclosure or use of our technical knowledge, practices or procedures by such personnel. We have entered into employment agreements with our senior management and key personnel which contain non-competition, non-solicitation and non-disclosure covenants that survive for up to one year following termination of employment. We may not, however, be able to enforce the non-competition, non-solicitation and non-disclosure provisions of these agreements, and such agreements do not ensure the continued service of these senior management and key personnel. In addition, most of our subsidiaries do not maintain key man life insurance for any of the senior members of their management team or their key personnel.

Our subcontracting practices may expose us to technical uncertainties, potential liabilities and reputational harm.

In order to meet our personnel needs, increase workforce flexibility, and improve pricing competitiveness, we subcontract portions of certain projects to third parties. Despite certain advantages of subcontracting, such arrangements also give rise to a number of risks.

Although we try to source competent and credible third parties as our subcontractors, they may not be able to deliver the level of service that our clients expect us to deliver. In addition, we rely on some of our subcontractors to provide certain services in order to complete our clients' projects, which requires us to ensure that they continue to work with us and provide effective service. Should these subcontractors fail to deliver their services in a timely or effectively manner, our customers' perception of our services could be negatively impacted and our business could be adversely affected. Furthermore, we usually enter into non-disclosure arrangements with our subcontractors to limit access to and distribution of our clients' intellectual property and other confidential information as well as our own, but we cannot guarantee that they will not breach the confidentiality of our clients and misappropriate our or our clients' proprietary information and technology in the course of providing service. We, as the party to the contract with the client, are usually directly responsible for the losses our subcontractors cause to our clients. Under the subcontracting agreements we enter, our subcontractors usually promise to indemnify us for damages caused by their breach, but we may be

unable to collect under these agreements. Moreover, their breaches may damage our reputation and adversely affect our ability to acquire new business in the future.

Despite internal restrictions designed to prevent these actions, we may have subcontracted certain contractual obligations to third parties without first obtaining our clients' prior written consent under the related client contracts. Although we have not been subject to adverse claims by our clients for these actions, we cannot assure you that these actions would not result in improper disclosure of client information, or result in client dissatisfaction or client loss.

Our interests may conflict with our joint venture partners and disputes with joint venture partners may adversely affect our business.

As of December 31, 2016, we indirectly hold a 25% equity interest in a PRC joint venture company, namely Guizhou Pactera Technology Limited. As we continue to grow, we may acquire interests in more joint venture enterprises in China or abroad to execute our expansion plans by utilizing our partners' skills, experiences and resources. In accordance with PRC law, certain material matters relating to a joint venture, including share transfers, increase or reduction of the registered capital of the joint venture, amendments to its articles of association, merger or division of the joint venture, and termination and dissolution of the joint venture, may require our joint venture partners' consents. Our future joint venture enterprises to be established abroad may involve more legal implications in other jurisdictions.

In addition, joint ventures involve risks that our joint venture partners may:

- have economic or business interests or goals that are inconsistent with or adverse to ours;
- take actions contrary to our instructions or requests or contrary to our policies or objectives;
- be unable or unwilling to fulfill their obligations under the relevant joint venture agreements;
- have financial difficulties; or
- have disputes with us as to the scope of their responsibilities and obligations.

Our present or future joint venture projects may not be successful. We cannot assure you that we will not have disputes or encounter other problems with respect to our present or future joint venture partners or that we will be able to resolve such disputes and solve such problems in a timely manner, or at all. Any failure of us to address these potential disputes or conflict of interests effectively could have a material adverse effect on our business, financial condition, and results of operations.

We may be liable to our clients for damages caused by system failures or breaches of security obligations.

Many of our contracts involve projects that are critical to the operations of our clients' businesses. Certain of our client contracts require us to comply with security obligations including maintaining network security and back-up data, ensuring our network is virus-free, maintaining business continuity planning procedures, and verifying the integrity of employees that work with the clients by conducting background checks. Any failure in a client's system or breach of security relating to the services we provide to the client could damage our reputation or result in a claim for substantial damages against us. In some of our client contracts we limit our liability for damages arising from negligent acts in rendering our technology services. However, these contractual

limitations of liability may be unenforceable or may fail to protect us from liability for damages in the event of a claim for breach of our obligations. In addition, our liability insurance is limited and may be insufficient to cover liabilities that we incur.

Assertions of system failures or breaches of security obligations against us, if successful, could have a material adverse effect on our business, reputation, financial condition and results of operations. Even if such assertions against us are unsuccessful, we may incur reputational harm and substantial legal fees.

If our clients' proprietary intellectual property or confidential information is misappropriated by us, our employees or otherwise in violation of applicable laws and contractual agreements, we could be exposed to protracted and costly legal proceedings and lose clients.

We and our employees are frequently provided with access to our clients' proprietary intellectual property and confidential information, including source codes, software products, business policies and plans, trade secrets and personal data. We use network security technologies and other methods to prevent employees from making unauthorized copies, or engaging in unauthorized use, of such intellectual property and confidential information. We also require our employees and subcontractors to enter into non-disclosure arrangements to limit access to and distribution of our clients' intellectual property and other confidential information as well as our own. However, implementation of intellectual property-related laws in China has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, protection of intellectual property rights and confidentiality in China may not be as effective as that in the United States or other developed countries. As such, the steps taken by us in this regard may not be adequate to safeguard our clients' intellectual property and confidential information.

Reverse engineering, unauthorized copying or other misappropriation of proprietary technologies of our clients could enable third parties to benefit from our or our clients' technologies, and our clients may hold us responsible for that act and seek damages and compensation from us. Moreover, most of our client contracts do not include any limitation on our liability to them with respect to breaches of our obligation to keep the information we receive from them confidential, which may subject us to indirect or consequential damages incurred by our clients. In addition, we may not always be aware of intellectual property registrations or applications relating to source codes, software products or other intellectual property belonging to our clients. As a result, if our clients' proprietary rights are misappropriated by us, our employees or otherwise, our clients may consider us liable for that act and seek damages and compensation from us. Assertions of infringement of intellectual property or misappropriation of confidential information against us, if successful, could have a material adverse effect on our business, financial condition and results of operations. Any such acts could also cause us to lose existing and future business and damage our reputation in the market. Even if such assertions against us are unsuccessful, they may cause us to incur reputational harm and substantial legal fees.

If we cause disruptions to our clients' businesses or provide inadequate service, our clients may have claims for substantial damages against us, and as a result our profits may be substantially reduced.

Most of our contracts with clients contain performance requirements. Failure to consistently meet service requirements of a client or errors made by our professionals in the course of delivering services to our clients could disrupt the client's business and result in a reduction in revenues or a claim for substantial damages against us. In addition, a failure or inability to meet a contractual requirement could seriously damage our reputation and affect our ability to attract new business.

The services we provide are often critical to our clients' businesses, and any failure to provide those services could result in a reduction in revenues or a claim for substantial damages against us, regardless of whether we are responsible for that failure. Our CDC methodology requires us to

maintain active data and voice communications between our main development centers in China and our international clients' offices. Any significant failure of our equipment or systems, or any major disruption to basic infrastructure like power and telecommunications in the locations in which we operate, could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients, reduce our revenues and harm our business.

To the extent that our contracts contain limitations on liability for breach of our obligations, such limitations may be unenforceable or otherwise may not protect us from liability for damages. In addition, certain liabilities, such as claims of third parties for which we may be required to indemnify our clients, are generally not limited under our contracts. Although we have purchased, among other things, commercial general liability insurance and information and network technology errors or omissions liability insurance for our facilities in certain areas, the successful assertion of one or more large claims against us could still have a material adverse effect on our business, reputation, results of operations, financial condition and cash flows.

We may face certain risks with respect to leasing out or transferring certain of our real properties, which may be subject to transfer restrictions.

One of our subsidiaries has entered into a series of contracts in connection with development and construction of our new delivery center and research and development center on two parcels of land with an area of approximately 21,700 square meters in Beijing since November 2009. As of the date of this annual report, we have obtained the land use right certificate and real estate title certificates for the buildings. According to the relevant land use right certificate and the relevant land use right grant agreement and its supplements, (i) the usage for the land is for science and education as well as other business and services, (ii) the land can be only used by our subsidiary, Pactera Technology Limited (formerly known as VanceInfo Creative Software Technology Ltd., "Pactera Beijing"), and (iii) any transfer of the title to the land is prohibited unless prior consent from the competent governmental authority is obtained. Since October 2013, we have leased out part of the buildings to certain third party companies. As of the date of this annual report, the leases covered up to a total area of approximately 23,792 square meters for total monthly rent of approximately \$0.5 million. This lease may be deemed as violation of the above use and transfer restrictions and we may thus be subject to certain penalties such as refund of the governmental subsidies for the part of the buildings that we have leased out. If such lease cannot be performed due to the above reason, the tenant may also claim damages against us. We have moved our delivery center and research and development center in Beijing to the new office premises built on these parcels of land.

In addition, one of our subsidiaries purchased three buildings from a third company by tender process with an aggregated gross floor area of approximately 21,225 square meters in Wuxi. As of the date of this annual report, we have paid up the purchase prices for these buildings and obtained the real estate title certificates to these buildings. According to such real estate title certificates, the usage of these buildings is for education, hospital and science, and based on the relevant strategic cooperation agreement that our subsidiary entered into with respect to these buildings, we committed not to change the usage of the relevant land. Therefore, the transfer or other disposition of these buildings and the above buildings in Beijing will be subject to restrictions as described above, unless we have obtained consent from relevant authorities.

We face risks associated with having a long selling and implementation cycle for our services that requires us to make significant resource commitments prior to realizing revenues for those services.

We have a long selling cycle for our outsourced technology services, which requires significant investment of capital, human resources and time by both our clients and us. Before committing to use our services, potential clients often require us to expend substantial time and resources educating them as to the value of our services and our ability to meet their requirements. Therefore, our selling cycle, which frequently exceeds six months for new clients and three months for existing clients, is subject to many risks and delays over which we have little or no control,

including our clients' decision to choose alternatives to our services (such as other providers or in-house resources) and the timing of our clients' budget cycles and approval processes. For certain engagements we may begin work and incur substantial costs prior to concluding the contract.

Implementing our services also involves a significant commitment of resources over an extended period of time from both our clients and us. Our clients may experience delays in obtaining internal approvals or delays associated with technology or system implementations, thereby further delaying the implementation process. Our current and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to obtain contracts with potential clients to which we have devoted significant time and resources, which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our competitiveness, profitability and prospects will suffer if we are not able to maintain our resource utilization levels and continue to improve our productivity levels.

Our gross margin and profitability are significantly impacted by our utilization levels of fixed-cost resources, including human resources as well as other resources such as computers and office space, and our ability to increase our productivity levels. We have expanded our operations significantly in recent years through organic growth and external acquisitions, including the MOE, which has resulted in a significant increase in our headcount and fixed overhead costs. We may face difficulties in maintaining high levels of utilization for our newly established or newly acquired businesses and resources. In addition, some of our professionals are specially trained to work for specific clients or on specific projects and some of our delivery center facilities are dedicated to specific clients or specific projects. Our ability to manage our utilization levels depends significantly on our ability to hire and train high-performing professionals and to staff projects appropriately, and on the mix of our international versus Chinese domestic services provided on a given project.

If we experience a slowdown or stoppage of work for any client or on any project for which we have dedicated professionals or facilities, we may not be able to efficiently reallocate these professionals and facilities to other clients and projects to keep their utilization and productivity levels high. If we are not able to maintain high resource utilization levels without corresponding cost reductions or price increases, our competitiveness, profitability and prospects will be materially and adversely affected.

Wage increases in China may prevent us from sustaining our competitive advantage and may reduce our profitability.

Compensation expenses for our professionals and other employees form a significant part of our costs. Wage costs in China have historically been significantly lower than wage costs in Japan, the United States and other developed countries for comparably skilled professionals. However, because of rapid economic growth and increased competition for skilled employees in China, wages for highly skilled employees in China, in particular middle- and senior-level managers are increasing at a higher rate than in Japan, the United States, Singapore and Europe. We may need to increase our levels of employee compensation more rapidly than in the past to remain competitive in attracting and retaining the quality and number of employees that our business requires. Increases in the wages and other compensation we pay our employees in China could reduce the competitive advantage we have enjoyed against international service providers in Japan, the United States and other countries.

If we fail to comply with the regulations of the various industries and the different jurisdictions in which our clients conduct their business or fail to adhere to the regulations that govern our business, our ability to perform services may be affected and may result in breach of obligation with our clients.

We serve clients across the United States, China, Japan, Europe and other countries and our clients are subject to various regulations that apply to specific industries. Therefore, we need to

perform our services to satisfy the requirements for our clients to comply with applicable regulations. We are also required under PRC laws and regulations to obtain and maintain licenses and permits to conduct our business. If we fail to perform our services in such a manner that enables any client to comply with applicable regulations, we may be in breach of our obligations with such client and as a result, we may be required to pay the client penalties under the terms of the relevant contract with such client. In addition, if we cannot maintain the licenses or approvals necessary for our business, there may be a material adverse effect on our business and results of operations.

Fluctuations in exchange rates could impact our competitiveness and results of operations.

The majority of our revenues are generated in RMB, U.S. dollars and Japanese yen, while the majority of our costs are denominated in RMB. Accordingly, changes in exchange rates, especially relative changes in exchange rates among the RMB, U.S. dollar and Japanese yen, may have a material adverse effect on our revenues, costs and expenses, gross and operating margins and net income. For example, because substantially all of our employees are based in China and paid in RMB, our employee costs as a percentage of revenues may increase or decrease significantly along with fluctuations in the exchange rates between the RMB, U.S. dollar and Japanese yen.

The U.S. dollar and Japanese yen are freely floating currencies. However, the conversion of the RMB into foreign currencies, including the U.S. dollar and the Japanese yen, has been based on exchange rates set by the People's Bank of China ("PBOC"). On July 21, 2005, the PRC government changed its policy of pegging the value of the RMB solely to the U.S. dollar. Under this revised policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Following the removal of the U.S. dollar peg, the RMB appreciated more than 20% against the U.S. dollar over the following three years. On June 19, 2010, the PBOC announced that it will allow a more flexible exchange rate for RMB without mentioning specific policy changes, although it ruled out any large-scale appreciation. Since June 2010, the RMB has started to slowly appreciate against the U.S. dollar, though there have been periods recently when the U.S. dollar has appreciated against the RMB. On April 16, 2012, the PBOC enlarged the floating band of RMB's trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1% around the middle rate released by the China Foreign Exchange Trade System each day. In February 2014, the center point of the currency's official trading band hit 6.1146, representing appreciation of more than 11.7% since June 19, 2010. On March 17, 2014, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. However, on August 11, 2015, the PBOC reduced the RMB's reference rate by 1.9%, and further reduced nearly 1.6% on August 12, 2015 as compared to August 11, 2015, sparking the sharpest fall in the RMB currency's value since the dollar peg ended a decade ago. Changes in value of RMB against U.S. dollar may occur relatively suddenly, as was the case for example in August 2015. Renminbi depreciated against the U.S. dollar by 7.2% by February 2017 following the August 2015 announcement by PBOC. It is difficult to predict how long the current situation may last and when and how RMB exchange rates may change going forward.

If the RMB appreciates significantly against the U.S. dollar or the Japanese yen and we are unable to correspondingly increase the proportion of our RMB-denominated revenues, our margins and profitability could decrease substantially. Conversely, a significant depreciation of the RMB against the U.S. dollar or the Japanese yen may significantly reduce the U.S. dollar or the Japanese yen equivalent of our earnings. We have entered into a limited number of RMB-U.S. dollar and RMB-Japanese yen forward contracts to partially hedge our exposure to risks relating to fluctuations in the RMB-U.S. dollar and RMB-Japanese yen exchange rates, and we periodically review the need to enter into hedging transactions to protect against fluctuations in the RMB-U.S. dollar and RMB-Japanese yen exchange rates. However, only limited hedging transactions were available as of December 31, 2016 for RMB exchange rates, and the effectiveness of these hedging transactions in reducing the adverse effects on us of exchange rate fluctuations may be limited.

We have limited ability to protect our intellectual property rights, and unauthorized parties may infringe upon or misappropriate our intellectual property.

Our success depends in part upon our proprietary intellectual property rights, including certain methodologies, practices, tools and technical expertise we utilize in designing, developing, implementing and maintaining applications and processes used in providing our services. We rely on a combination of copyright, trademark and patent laws, trade secret protections and confidentiality agreements with our employees, clients and others to protect our intellectual property, including our brand identity. Nevertheless, it may be possible for third parties to obtain and use our intellectual property without authorization. The unauthorized use of intellectual property is common and widespread in China and enforcement of intellectual property rights by PRC regulatory agencies is inconsistent. As a result, litigation may be necessary to enforce our intellectual property rights. Litigation could result in substantial costs and diversion of our management's attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, there is no guarantee that we would be able to halt any unauthorized use of our intellectual property in China through litigation.

We may be subject to third-party claims of intellectual property infringement, which could be time-consuming and costly to defend. If we fail to defend ourselves against such claims, we may lose significant intellectual property rights and may be unable to continue providing our existing services.

Although there were no material pending or threatened intellectual property claims against us as of December 31, 2016, and we believe that our intellectual property rights do not infringe on the intellectual property rights of others, infringement claims may be asserted against us in the future. For example, we may be unaware of intellectual property registrations or applications that purport to relate to our services, which could give rise to potential infringement claims against us. Parties making infringement claims may be able to obtain an injunction to prevent us from delivering our services or using technology containing the allegedly infringing intellectual property. In addition, some of our contracts contain indemnity clauses in favor of our clients, and under certain of our contracts, we are required to provide specific indemnities relating to third-party intellectual property rights infringement. In some instances, the amount of these indemnities may be greater than the revenues we receive from the client. If we become liable to third parties for infringing their intellectual property rights, we could be required to pay a substantial damage award. Although we carry limited professional liability insurance, such insurance may not cover some claims and may not be sufficient to cover all damages that we may be required to pay. Furthermore, we may be forced to develop non-infringing technologies or obtain a license to provide the services that are deemed infringing. We may be unable to develop non-infringing processes, methods or technologies or to obtain a license on commercially reasonable terms or at all. We may also be required to alter our processes or methodologies so as not to infringe others' intellectual property, which may not be technically or commercially feasible and may cause us to expend significant resources. Any claims or litigation in this area, whether we ultimately win or lose, could be time-consuming and costly and could damage our reputation, negatively affect our results of operations or financial condition.

We may be exposed to legal proceedings, which, if determined adversely to us, could cause us to pay significant damages or otherwise adversely affect our business and operation.

From time to time, we may be subject to legal proceedings, investigations and claims incidental to the conduct of our business. For example, on October 5, 2012, two individuals, or the plaintiffs, filed an action in the Superior Court of California, County of San Francisco against us and certain of our executive officers. The plaintiffs founded Echo Lane, Inc. ("Echo Lane") and became our employees after Echo Lane was acquired by us in 2010. The plaintiffs alleged that we were liable to them for breach of contract and for fraud relating to the acquisition of Echo Lane. On March 29, 2016, we entered into a settlement agreement with the plaintiffs. For more information about this

case, see “Legal Proceedings”. Any threatened, existing or future legal proceedings against us may divert our management’s attention regardless of the final results of the legal proceedings. Furthermore, these proceedings, if determined adversely to us, could cause us to pay significant damages or otherwise adversely affect our business and operation.

We may be subject to litigation initiated in connection with the 2014 Merger and 2017 Merger, which could be time consuming and divert the resources and the attention of management.

Future lawsuits may allege that the directors breached their fiduciary duties by engaging in a flawed sales process, by approving an inadequate price, and by agreeing to provisions that would allegedly preclude another interested buyer from making a financially superior proposal to acquire the company. The defense of any such lawsuits may be expensive and may divert management’s attention and resources, which could adversely affect our results of operations and financial condition.

Our business operations and financial condition could be adversely affected by negative publicity about offshore outsourcing or anti-outsourcing legislation in the United States, Europe, Japan or other countries in which our clients are based.

Concerns that offshore outsourcing has resulted in a loss of jobs and sensitive technologies and information to foreign countries have led to negative publicity concerning outsourcing in some countries, including the United States. Current or prospective clients may elect to perform services that we offer them or may be discouraged from transferring these services to offshore providers to avoid any negative perception that may be associated with using an offshore provider. These trends could harm our ability to compete effectively with competitors that operate primarily out of facilities located in these countries.

Offshore outsourcing has also become a politically sensitive topic in many countries, including the United States. A number of states of the United States have passed legislation that restricts state government entities from outsourcing certain work to offshore service providers. Other federal and state legislation has been proposed that, if enacted, would provide tax disincentives for offshore outsourcing or require disclosure of jobs outsourced abroad. Similar legislation could be enacted in Europe, Japan and other countries in which we have clients. Any expansion of existing laws or the enactment of new legislation restricting or discouraging offshore outsourcing by companies in the United States, Europe, Japan or other countries in which we have clients could adversely impact our business operations and financial results.

We may need additional capital and any failure by us to raise additional capital on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our service offerings to respond to market demand or competitive challenges.

Capital requirements are difficult to plan in our rapidly changing industry. We expect that we may need capital to fund:

- acquisitions of assets, technologies or businesses;
- the development and expansion of our technology service offerings;
- the expansion of our operations and geographic presence; and
- our marketing and business development costs.

We may require additional capital resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or

debt securities or obtain additional credit facilities. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including, among other things:

- conditions in the United States and other capital markets in which we may seek to raise funds;
- our future results of operations and financial condition;
- PRC government regulation of foreign investment in China;
- economic, political and other conditions in China; and
- PRC government policies relating to the borrowing and remittance outside China of foreign currency.

For more information, see “Risks Related to the Notes and Our Other Indebtedness— The Indenture imposes significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.”

Financing may not be available in amounts or on terms acceptable to us or at all. Any failure by us to raise additional funds on terms favorable to us, or at all, could limit our ability to grow our business and develop or enhance our product and service offerings to respond to market demand or competitive challenges.

The financial soundness of financial institutions with which we place our cash and cash equivalents could affect our financial conditions, business and result of operations.

We place our cash and cash equivalents with authorized financial institutions, which include (i) banks incorporated in China, which are all authorized to operate banking business by China Banking Regulatory Commission and other relevant agencies, and (ii) overseas financial institutions regulated by competent regulatory authorities in their relevant jurisdictions such as Hong Kong. On February 17, 2015, the State Council promulgated the Deposit Insurance Regulation, which requires banks registered within China to provide deposit insurance to depositors. However, pursuant to the Deposit Insurance Regulation, the insurance provided by the banks has a coverage limit of RMB500,000. Any deterioration of financial soundness of these banks or financial institutions or any failure of such deposit insurance to fully cover our bank deposits would cause credit risks to our cash and cash equivalents placed with them and thus could have a material adverse effect on our financial conditions, business and results of operations.

Because there is limited business and litigation insurance coverage available in China, any business disruption or litigation we experience might result in our incurring substantial costs and diverting significant resources to handle such disruption or litigation.

While business disruption insurance may be available to a limited extent in China, we have determined that the risks of disruption and the difficulties and costs associated with acquiring such insurance render it commercially impractical for us to have such insurance. As a result, we do not have any business liability or business disruption coverage for our operations in China. Although we carry limited professional liability insurance, such insurance may not cover some claims and may not be sufficient to cover all damages that we may be required to pay due to such claims. As a result, any business disruption or litigation might result in our incurring substantial costs and the diversion of resources.

Our operations and those of our customers are vulnerable to natural disasters and other events beyond our control, the occurrence of which may have an adverse effect on our facilities, personnel and results of operations.

Our operations and those of our customers are vulnerable to fires, earthquakes, typhoons, droughts, floods, power losses, and similar events. Any damages and disruptions caused thereby could affect our ability to perform services for our clients in accordance with the contractual provisions and may cause us to incur additional expenses to repair or to reinvest in equipment or facilities. Due to the concentration of our operations, any future problem in our facilities such as loss of power or earthquake may limit our ability to conduct our business. We cannot guarantee that such future events will not cause material damage to our and our customers' facilities or property or cause significant business interruptions. In addition, the damages and additional expenses caused by natural disasters may not be fully covered by our insurance and our failure to perform services for our clients due to such natural disasters may affect our reputation and may damage our relationships with our clients.

In March 2011, Japan was struck by a 9.0-magnitude earthquake. The earthquake resulted in a tsunami and radiation leaks at the Fukushima nuclear facility. In response to unfolding safety concerns at the damaged nuclear facility at Fukushima, we incurred relocation expenses associated with relocating our nearly 200 Japan-based employees and their families. Those employees and their families were given the option of being relocated to Osaka, Japan or to China to work out of these alternative locations, after consultation with our clients. As a result, in the first quarter of 2011, we experienced additional operating expenses of approximately \$0.7 million. We cannot assure you that these events will not have any further subsequent adverse effect on our facilities and operations or those of our customers. In particular, the extent of existing and potential future radiation release from the Fukushima nuclear facility is still in flux and coupled with potential aftershocks from the earthquake, may result in future additional adverse effects on our facilities and operations and those of our customers and suppliers.

We cannot assure you that there will be no further adverse impact on our future revenue as a result of potential interruption or slowdown of operations of our customers.

Our net revenues and results of operations are affected by seasonal trends.

Our net revenues and results of operations are affected by seasonal trends. In particular, as most of our net revenues are derived from contracts priced on a time-and-materials basis, we typically experience lower total net revenues during holiday periods, particularly during the Chinese New Year holiday in the first quarter of every year and various holidays throughout the year, when our delivery centers in the PRC operate with reduced staffing. However, during periods of high growth in our net revenues as well as during periods of quarterly fluctuations in net revenues due to other factors, such as the recent global economic crisis, any seasonal impact on our quarterly results may not be apparent. We believe that our net revenues and results of operations will continue to be affected in the future by seasonal trends. As a result, you may not be able to rely on period to period comparisons of our net revenues and results of operations as an indication of our future performance.

The international nature of our business exposes us to risks that could adversely affect our financial condition and results of operations.

We have operations in China, the United States, Japan, Singapore, Australia, Europe, Malaysia, Mauritius and Indonesia, and we serve clients across North America, Europe and Asia. Our corporate structure also spans multiple jurisdictions, with our parent holding company incorporated in the Cayman Islands and intermediate and operating subsidiaries incorporated in China, the United States, Japan, Singapore, Australia, Europe, Malaysia, Mauritius and Indonesia. As a result, we are exposed to risks typically associated with conducting business internationally, many of which are beyond our control. These risks include:

- significant currency fluctuations among the RMB, U.S. dollar, Japanese yen, Singapore dollar and other currencies in which we transact business;
- legal uncertainty owing to the overlap of different legal regimes, problems in asserting contractual or other rights across international borders, and the burden and expense of complying with the laws and regulations of various jurisdictions;
- potentially adverse tax consequences, such as scrutiny of transfer pricing arrangements by authorities in the countries in which we operate;
- current and future tariffs and other trade barriers, including restrictions on technology and data transfers;
- obtaining visas and other travel documents, especially for our employees who are PRC citizens;
- unexpected changes in regulatory requirements;
- terrorist attacks and other acts of violence, regional conflicts or war, including any escalation of hostilities between South Korea and North Korea; and
- natural and man-made disasters.

The occurrence of any of these events could have a material adverse effect on our financial condition and results of operations.

We may cease to enjoy financial incentives and subsidies from certain PRC government agencies.

Certain of our PRC subsidiaries have in the past been granted financial incentives and subsidies from certain local government agencies in support of the continued expansion of our business locally and globally. These government agencies may decide to reduce or eliminate such financial incentives and subsidies at any time. Therefore, we cannot assure you of the continued availability of such financial incentives and subsidies. The discontinuation of these financial incentives and subsidies could potentially increase our operating and other expenses and adversely affect our financial condition and results of operation.

We rely on technological infrastructure and telecommunications systems in providing our services to our clients, and any failures by, or disruptions to, the infrastructure and systems we use could adversely affect our business and results of operations.

To provide effective Chinese domestic outsourced technology services for our clients, we must maintain active voice and data communications among our main operation centers in China, our international centers in Japan, the United States and Australia, and our clients' offices. Disruptions to our communications systems could result from, among other things, technical breakdowns, computer glitches and viruses, and natural or man-made disasters. For example, while the March 11, 2011 Japan earthquake, resulting tsunami and radiation leaks at the Fukushima nuclear power plant did not damage our facilities in Japan, we did sustain some disruption in our business in and around the Tokyo region owing to temporary loss of electrical power, temporary staff evacuation and lost staff productivity. Also, the May 2008 earthquake centered in China's Sichuan province caused disruptions in the operations of our Chengdu delivery center, including interruptions in communications, temporary closure and lost staff productivity. We also depend on certain significant vendors for facility storage and related maintenance of our main technology equipment and data at our technology hubs. Any failure by these vendors to perform those services, any temporary or permanent loss of our equipment or systems, or any disruptions to basic infrastructure like power and telecommunications

could impede our ability to provide services to our clients, have a negative impact on our reputation, cause us to lose clients and otherwise adversely affect our business and results of operations.

We may be vulnerable to cyber attacks, which could disrupt our operations and have a material adverse effect on our business, financial performance and operating results.

As a provider of outsourced IT and research and development services, cyber attacks and hacking activities may cause a material adverse effect on our business, financial performance and operating results. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. Hacking and computer viruses could result in significant damage to our hardware and software systems and databases, disruptions to our business activities, including to our e-mail and other communications systems, breaches of security and the inadvertent disclosure of confidential or sensitive information, interruptions in access to our website through the use of “denial of service” or similar attacks, and other material adverse effects on our operations. As techniques used to breach security change frequently and are often not recognized until launched against a target, we may not be able to implement new security measures in a timely manner or, if and when implemented, we may not be certain whether these measures could be circumvented. We may incur significant costs to protect our systems and equipment against the threat of, and to repair any damage caused by, computer viruses and hacking. Moreover, if a computer virus or hacking affects our systems and is highly publicized, our reputation and brand names could be materially damaged and use of our services may decrease.

Restrictions on visa issuances by Japan, the United States or other countries may affect our ability to compete for and provide services to clients in those countries, which could adversely affect our business and results of operations.

Our business depends to a limited extent on the ability of our PRC employees to obtain the necessary visas and entry permits to do business in the countries where our clients and our delivery centers are located. Historically, the process for obtaining visas for PRC nationals to visit certain countries, including Japan and the United States, has been lengthy and cumbersome. We have in the past experienced delays and rejections when applying for business visas to the United States for some of our personnel. Moreover, in response to terrorist attacks and global unrest, immigration authorities generally, and those in the United States in particular, have increased the level of scrutiny in granting visas. If further terrorist attacks occur, obtaining visas for our personnel may become even more difficult. Local immigration laws may also require us to meet certain other legal requirements as a condition to obtaining or maintaining entry visas. In addition, immigration laws are subject to legislative change and varying standards of application and enforcement due to political forces, economic conditions or other events, including terrorist attacks. If we are unable to obtain the necessary visas for our personnel who need to travel internationally, if the issuance of such visas is significantly delayed, or if the length of stay permitted under such visas is shortened, we may not be able to provide services to our clients on a timely and cost-effective basis or manage our international delivery centers as efficiently as we otherwise could, any of which could adversely affect our business and results of operations.

Risks Related to China

Our operations may be adversely affected by changes in China’s political, economic and social conditions or deterioration in China’s relations with Japan or the United States.

As a substantial portion of our business operations are conducted in China, changes to the economic, political and social conditions in China could have an adverse effect on our business, results of operations and prospects. In addition, any significant increase in China’s inflation rate could increase our costs and have a negative impact on our operating margins. Although inflation in China

has not materially impacted our results of operations in recent years, China has experienced significant increases in inflation levels. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.0%, 1.4% and 2.0% in 2014, 2015 and 2016, respectively.

Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to exercise significant control over China's economic growth through the allocation of resources, controlling the incurrence and payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. From late 2003 to mid-2008, the PRC government implemented a number of measures, such as increasing the PBOC's statutory deposit reserve ratio and imposing commercial bank lending guidelines that had the effect of slowing the growth of credit availability. In response to the recent global and Chinese economic downturn, the PRC government has promulgated several measures aimed at expanding credit and stimulating economic growth. Since August 2008, the PBOC has decreased the statutory deposit reserve ratio and lowered benchmark interest rates several times in response to the global downturn. Since January 2010, the PBOC has begun to increase the statutory reserve ratio in response to rapid domestic growth, which may have a negative impact on the Chinese economy. However, since December 2011, the PBOC has begun to decrease the statutory deposit reserve ratio, including a recent decrease in early 2016, in an effort to maintain the pace of economic growth. In March, August and October 2015 and March 2016, the PBOC continued to decrease the benchmark interest rates, in order to further stimulate economic growth. It is unclear whether PRC economic policies will be effective in sustaining stable economic growth in the future. Changes in any of these policies could adversely affect the overall economy in China or the prospects of the outsourced technology services industry.

Any sudden changes to China's political system or the occurrence of widespread social unrest could have negative effects on our business and results of operations. In addition, China has a number of disputes with Japan or the United States and any significant deterioration in China's relations with each of them could discourage some of our clients in those countries from engaging in business with us or could lead to legislation in China, Japan or the United States that could have an adverse impact on our business interests. For example, an outbreak of hostilities concerning a dispute between China and Japan over the uninhabited Diaoyu/Senkaku Islands resulted in sharp declines in sales of Japanese goods in China and a decline in travel to Japan by Chinese tourists. We are not able to assure you that this political dispute would not develop into a more severe political upheaval or economic downturns in China and Japan, which may greatly harm our business operations and financial results.

Substantial uncertainties exist with respect to the newly enacted Cybersecurity Law as well as any impact it may have on our business operations.

On November 7, 2016, China enacted its Cybersecurity Law, which will take effect on June 1, 2017, to establish more stringent requirements for network operators. Among others, network operators (defined as network owners, administrators and network service providers) in the PRC are required to take necessary actions to prevent security attacks and data loss, including data classification and backup and encryption. Furthermore, the Cybersecurity Law systematically specifies requirements on user information protection applicable to network operators, who are prohibited from disclosing without permission or selling individual information with limited exceptions. When network operators become aware of any information that is prohibited by laws and administrative regulations, they are required to immediately cease transmission of such information, and take measures such as deletion of relevant information to prevent its dissemination. Operators must maintain a record of these incidents when they occur and report them to the relevant authorities, who may also request for such reports. Where any prohibited information comes from outside the territory of China, the authorities may additionally request that all relevant institutions take measures to stop the flow of such prohibited information.

We may be deemed a “network operators” and thus will be subject to the various requirements under the Cybersecurity Law. Furthermore, if any of our customers’ network fall into the scope of critical information infrastructure, as the network service provider, we may be subject to higher standards. We and many of our financial institution clients may fall under the category of CII operators. In that case, when we provide service or technology products to financial institutions in China, it may trigger the national security examination process under the National Security Law, which can be lengthy, complicated and highly uncertain. Because the law is newly enacted, there remains high uncertainty in the interpretation and enforcement of the law. In particular, due to lack of details on the implementation of the Cybersecurity Law, we cannot assure you that we would be able to comply with the requirements in a timely manner. Failure to comply with the requirements may lead to fines, order of rectification, confiscation of illegal gains, revocation of the business permit or license and other government actions.

Finally, we procure equipment or software for storage, encryption and decryption from time to time. It remains unclear whether such equipment or software will fall into the category of the so-called “critical network equipment” or “dedicated network security products” due to lack of criteria or standards in the Cybersecurity Law. As such, we cannot assure that the equipment and software we have procured or may procure in the future comply with the requirements, and we may incur additional costs to comply with the requirements.

The discontinuation of any of the preferential tax treatments available to us in China could materially and adversely affect our results of operations and financial condition.

Under PRC tax laws and regulations, certain of our operating subsidiaries in China enjoyed, or are qualified to enjoy, certain preferential income tax benefits.

On March 16, 2007, the National People’s Congress of China enacted a new Enterprise Income Tax Law (“New EIT Law”), which became effective on January 1, 2008. In addition, the Implementation Rules of the New Enterprise Income Tax Law (the “Implementation Rules”), was promulgated by the PRC State Council on December 6, 2007. The New EIT Law, among other things, (i) reduces the statutory rate of enterprise income tax from 33% to 25% and (ii) introduces new tax incentives, subject to various qualification criteria. For example, the New EIT Law permits certain “high and new technology enterprises strongly supported by the state” to enjoy a reduced enterprise tax rate of 15%. According to the relevant administrative measures, to qualify as “high and new technology enterprises strongly supported by the state,” our PRC subsidiaries must meet certain financial and non-financial criteria and complete verification procedures with the administrative authorities. Continued qualification as a “high and new technology enterprise” is subject to a three-year review by the relevant government authorities in China, and in practice certain local tax authorities also require annual evaluation of the qualification. In addition, subject to approval from the applicable tax bureau, an enterprise which is recognized as a “newly setup software enterprise” is entitled to certain preferential tax treatment, including income tax exemption for its first two profit-making years, and a 50.0% reduction in its income tax rate for the subsequent three years. The qualification as a “software enterprise” is subject to annual inspection by the competent authorities in China.

According to the Notice on Certain Policies on Encourage of Development of Software Industry and Integrated Circuits Industry issued by the National People’s Congress of China on June 24, 2000, enterprises recognized as “key software enterprises within state plan” are entitled to enjoy the tax rate of 10%. On January 28, 2011, the National People’s Congress of China issued the Notice on Certain Policies to Further Encourage the Development of the Software Industry and Integrated Circuits Industry. Enterprises recognized as “Key software enterprises within state plan will continue to enjoy the tax rate of 10%.

On October 8, 2014, the Ministry of Finance, MOFCOM and the State Administration of Taxation jointly issued the Notice 59 on the Relevant Enterprise Income Tax Policies on Advanced

Technology Service Enterprises (“Notice 59”). Under Notice 59, enterprises which qualify as “advanced technology service enterprises” are entitled to enjoy the enterprise income tax rate of 15% from January 1, 2014 to December 31, 2018.

In the event the preferential tax treatment for any of our PRC subsidiaries is discontinued or is not verified by the local tax authorities, and the affected entity fails to obtain preferential income tax treatment, it will become subject to the standard PRC enterprise income tax rate of 25%.

We cannot assure you that the tax authorities will not, in the future, discontinue any of our preferential tax treatments, potentially with retroactive effect. The discontinuation of our preferential tax treatments or the change of the applicable preferential tax rate could materially increase our tax obligations.

All of our subsidiaries incorporated in China are required to pay value added tax as a result of recent tax reform in the PRC and the impact on our operating result is unclear.

On November 16, 2011, the Ministry of Finance and the State Administration of Taxation jointly issued the Implementation Rules of the Pilot Program of Value Added Tax Reform (“Circular 110”), and the Notice on the Pilot Program of Value Added Tax Reform in Transportation and Certain Modern Service Industries in Shanghai (“Circular 111” and together with Circular 110, the “New VAT Rules”). The New VAT Rules became effective on January 1, 2012. Under the tax reform pilot program launched in Shanghai under the New VAT Rules, transportation and certain modern service companies in Shanghai are subject to value added tax (“VAT”) in lieu of the otherwise applicable business tax of 5%.

In addition, on July 31, 2012, the Ministry of Finance and the State Administration of Taxation jointly issued the Circular on Launching the Pilot Collection of Value Added Tax in lieu of Business Tax in Transportation and Certain Areas of Modern Services Industries in Eight Provinces and Municipalities Including Beijing, certain transportation and modern services companies incorporated in eight other provinces or municipalities in the PRC are subject to the tax reform contemplated under the New VAT Rules. As a result, our PRC subsidiaries incorporated in Beijing, Jiangsu, Guangdong (including Shenzhen) and Tianjin are required to pay VAT starting from September 1, 2012, October 1, 2012, November 1, 2012, and December 1, 2012, respectively. According to the Notice Regarding the Nationwide Implementation of Transformation Pilot Program in respect of Transportation and Certain Modern Service Industries jointly issued by the Ministry of Finance and the State Administration of Taxation effective from August 1, 2013, such tax reform was implemented nationwide. Furthermore, since August 2013, the scope of the tax reform has been gradually expanded to include certain other industries, including the railway transport, postal service and telecommunication industries. From March 8, 2016, the scope of the tax reform has been further expanded to include all industries according to the Circular on Implementation of the Pilot Program of Value Added Tax Reform in All Industries. As a result, our PRC subsidiaries are all required to pay value-added tax instead of business tax on revenues derived from any business, including RDS, ITS and BPO, starting from March 2016.

Specifically, these subsidiaries will be subject to VAT at a rate of 3% if they qualify as small-scale VAT payers or 6% if they qualify as general VAT payers for the technology and IT services they provide. The tax burden associated with different VAT payer status are unclear because while general VAT payers are subject to a higher VAT rate, they enjoy the benefit of being able to reduce the total VAT payable by the VAT it has paid in connection with daily purchasing activities, which is not available to small-scale VAT payers. In addition, different formulas for calculating taxable VAT will be applied to the VAT payers depending on their status. Furthermore, upon the implementation of the tax reform to all industries and nationwide, all of our customers may require VAT invoices from us. Our business, financial condition and results of operations could be materially and adversely affected if the interpretation and enforcement of these rules and other tax reforms by the national and local tax authorities and other relevant authorities become unfavorable to us.

Under the New EIT Law, we may be classified as a “resident enterprise” of China. Such classification would likely result in unfavorable tax consequences to us.

Under the New EIT Law and the Implementation Rules, both of which became effective on January 1, 2008, an enterprise established outside of the PRC with “de facto management bodies” within the PRC is considered a resident enterprise and is subject to enterprise income tax at the rate of 25% on its global income. The Implementation Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” The State Administration of Taxation issued the Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (“Circular 82”) on April 22, 2009. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled offshore incorporated enterprise is located in China. Although Circular 82 only applies to offshore enterprises controlled by PRC enterprises, not those invested in by PRC individuals, like our company, the determining criteria set forth in Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or controlled by or invested in by PRC individuals. While we do not believe our holding company and our subsidiaries should be considered a resident enterprise, if the PRC authorities were to subsequently determine that we should be so treated, a 25% enterprise income tax on our global income could significantly increase our tax burden and materially and adversely affect our financial condition and results of operations.

Pursuant to the New EIT Law, dividends generated after January 1, 2008 and payable by a foreign-invested enterprise in China to its foreign investors will be subject to a 10% withholding tax, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement. We are a Cayman Islands holding company and substantially all of our income may come from dividends from our PRC subsidiaries. To the extent these dividends are subject to withholding tax, the amount of funds available to us to meet our cash requirements, including payments under the Notes, will be reduced.

In addition, because there remains uncertainty regarding the interpretation and implementation of the New EIT Law and the Implementation Rules, it is uncertain whether, if we are regarded as a PRC resident enterprise, any interest on the Notes to be paid by us to the holders of Notes that are non PRC resident enterprises, as well as any gain realized by such non-resident enterprise holders from the transfer of the Notes would be subject to any PRC withholding tax, if such income is treated as sourced from within China.

If we are required under the New EIT Law to withhold PRC income tax on the interest on the Notes and gains from the transfer of the Notes payable to the noteholders, your investment in the Notes may be materially and adversely affected.

Furthermore, the State Administration of Taxation promulgated the Notice on How to Understand and Determine the Beneficial Owners in Tax Agreement in October 2009, (“Circular 601”), which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and tax arrangements. According to Circular 601, a beneficial owner generally must be engaged in substantive business activities. An agent or conduit company will not be regarded as a beneficial owner and, therefore, will not qualify for treaty benefits. The conduit company normally refers to a company that is set up for the purpose of avoiding or reducing taxes or transferring or accumulating profits. We cannot assure you that any dividends to be distributed by our PRC subsidiaries to their non-PRC holding companies or parents, whose jurisdiction of incorporation has a tax treaty with China providing for a different withholding arrangement will be entitled to the benefits under the relevant withholding arrangement.

The strengthened scrutiny over acquisition transactions by the PRC tax authorities may have a negative impact on our acquisition strategy.

In connection with the New EIT Law, the Ministry of Finance and State Administration of Taxation jointly issued, on April 30, 2009, the Notice on Issues Concerning Process of Enterprise Income Tax in Enterprise Restructuring Business (“Circular 59”). On July 26, 2010, the State Administration of Taxation issued the Administration Measures on the Enterprise Income Tax Treatment of Enterprise Reorganizations (“Bulletin No. 4”) to provide clarification in a number of areas for Circular 59 and also provide guidance on filing and documentation requirements. On June 24, 2015, the State Administration of Taxation issued the Announcement on Several Issues Concerning the Collection of Enterprise Income Tax of Enterprise Reorganization (“Announcement 48”), which applies to the final settlement and payment of enterprise income tax in or after 2015. Announcement 48 further provides clarification in certain areas for Circular 59 and suspends the application of certain provisions under Bulletin No. 4. On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening the Management on Enterprise Income Tax for Non-resident Enterprises Equity Transfer (“Circular 698”). On March 28, 2011, the State Administration of Taxation issued the Notice on Issues about the Administration of Enterprise Income Tax for Non-PRC Enterprises (“Bulletin No. 24”), which provides clarification for Circular 698 in a number of areas, including, for example, installment payment treatment, effective tax burden, and filing requirement for foreign investors who have indirectly transferred a Chinese resident enterprise. The State of Administration of Taxation issued the Notice on Issues Concerning Special Tax Treatment on Equity Transfers by Non-resident Enterprises on December 12, 2013, or Bulletin No. 72, which provides guidance on the filing and documentation requirements on the special tax treatment for equity transfers by non-resident enterprises as defined under the Circular 59. Both Circular 59 and Circular 698 became effective retroactively on January 1, 2008. Bulletin No. 4, Bulletin No. 24 and Bulletin No. 72 took effect from January 1, 2010, April 1, 2011 and December 22, 2013, respectively. However, they also apply to transactions that have occurred prior to its issuance for which the relevant PRC tax matters have not been dealt with. On February 3, 2015, the State Administration of Taxation issued the Notice on Several Issues Concerning Enterprise Income Tax for Indirect Share Transfer by Non-PRC Resident Enterprises (“Circular 7”), which replaced or supplemented previous rules under Circular 698. Pursuant to Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. HiSoft Holdings Limited (“HiSoft Holdings BVI”), HiSoft, and HiSoft Systems Holdings Limited (“HiSoft Systems BVI”) respectively transferred to us and other subsidiaries of our company equity interests in HiSoft Services (Beijing) Ltd. (“HiSoft Beijing”) and HiSoft Technology (Chengdu) Co., Ltd., which was renamed as Chengdu Pactera Technology Limited (“Pactera Chengdu”), in 2008 and equity interests in HiSoft Systems (Shenzhen) Ltd., which was renamed as Shenzhen Pactera Systems Limited (“Pactera Shenzhen Systems”) in 2009. If Circular 7 is determined by the PRC tax authorities to be applicable to our past restructuring transactions as mentioned above, the transferors and transferees involved in these transactions may be subject to the tax filing and withholding or tax payment obligation, while our PRC subsidiaries may be requested to assist in the filing. The PRC tax authorities have the discretion under the circulars to make adjustments to the taxable capital gains based on the difference between the fair value of the equity interests transferred and the cost of investment. If the PRC tax authorities make such adjustment, our income tax costs will be increased. Furthermore, we, our non-resident enterprises and PRC subsidiaries may be required to spend significant resources to comply with Circular 7 or to establish that we and our non-resident enterprises should not be taxed under Circular 7, for our previous and any future restructuring or disposal of shares of our offshore subsidiaries, which may have a material adverse effect on our financial condition and results of operations.

By promulgating and implementing Circular 7, the PRC tax authorities have further strengthened their scrutiny over the direct or indirect transfer of equity interests in a PRC resident

enterprise by a non-resident enterprise. Furthermore, since we consistently pursue acquisitions as one of our growth strategies, and have conducted and may conduct acquisitions involving complex corporate structures, the PRC tax authorities may, at their discretion, adjust the capital gains or request us to submit additional documentation for their review in connection with any of our acquisitions, thus causing us to incur additional acquisition costs.

We may be subject to tax liability with respect to our MOE, which would materially and negatively affect our business and our results of operations.

Pursuant to Circular 7, an “indirect transfer” of assets, including equity interests in a PRC resident enterprise, by non-PRC resident enterprises may be re-characterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have a reasonable commercial purpose and was established for the purpose of avoiding payment of PRC enterprise income tax. As a result, gains derived from such indirect transfer may be subject to PRC enterprise income tax. According to Circular 7, “PRC taxable assets” include assets attributed to an establishment in China, immovable properties located in China, and equity investments in PRC resident enterprises, in respect of which gains from their transfer by a direct holder, being a non-PRC resident enterprise, would be subject to PRC enterprise income taxes. When determining whether there is a “reasonable commercial purpose” of the transaction arrangement, factors to be taken into consideration include: whether the main value of the equity interest of the relevant offshore enterprise derives from PRC taxable assets; whether the assets of the relevant offshore enterprise mainly consist of direct or indirect investment in China or if its income mainly derives from China; whether the offshore enterprise and its subsidiaries directly or indirectly holding PRC taxable assets have real commercial nature which is evidenced by their actual function and risk exposure; the duration of existence of the business model and organizational structure; the replicability of the transaction by direct transfer of PRC taxable assets; and the tax situation of such indirect transfer and applicable tax treaties or similar arrangements. In respect of an indirect offshore transfer of assets of a PRC establishment, the resulting gain is to be included with the enterprise income tax filing of the PRC establishment or place of business being transferred, and would consequently be subject to PRC enterprise income tax at a rate of 25%. Where the underlying transfer relates to the immovable properties located in China or to equity investments in a PRC resident enterprise, which is not related to a PRC establishment or place of business of a non-resident enterprise, a PRC enterprise income tax at 10% would apply, subject to available preferential tax treatment under applicable tax treaties or similar arrangements, and the party who is obligated to make the transfer payments has the withholding obligation. Where the payer fails to withhold any or sufficient tax, the transferor shall declare and pay such tax to the tax authority by itself within the statutory time limit. Late payment of applicable tax will subject the transferor to default interest. Circular 7 does not apply to transactions of sale of shares by investors through a public stock exchange where such shares were acquired from a transaction through a public stock exchange.

With respect to the MOE in November 2012, we do not believe that a gain recognized on the receipt of the MOE consideration for VanceInfo American depositary shares or VanceInfo shares pursuant to the MOE (the “MOE Consideration”), by VanceInfo American depositary shares holders or VanceInfo shareholders who are non-PRC tax resident enterprises should be subject to PRC income tax according to Circular 7. If, however, the relevant PRC taxation authorities, were to determine that VanceInfo should be treated as a resident enterprise under the New EIT Law and Circular 82 or that the receipt of the MOE Consideration should otherwise be subject to PRC income tax under Circular 7, then a gain recognized on the receipt of the MOE Consideration by VanceInfo shareholders or VanceInfo American depositary shares holders, respectively, who are non-PRC tax resident under the EIT Law could be treated as PRC taxable assets that would be subject to PRC withholding tax at a rate of 10%, unless otherwise reduced or exempted pursuant to an applicable tax treaty.

Our current understanding is that neither of Pactera or VanceInfo will be required to deduct or withhold any amount from the MOE Consideration under any applicable PRC laws. First, there is uncertainty as to the application of Circular 7 or previous rules under Circular 698, especially as

Circular 7 was recently promulgated and it is not clear how it will be implemented. Second, the MOE is an offshore transaction between overseas public companies, and the PRC tax laws are ambiguous as to the withholding obligation for this kind of offshore transaction. Third, we do not believe the MOE is a taxable “indirect transfer” in the context of either Circular 698 or Circular 7, because our company and VanceInfo have fair commercial reason to consolidate their respective IT outsourcing business in China, VanceInfo’s shareholders did not receive cash in the MOE (instead such shareholders will continue their investments in our company), and VanceInfo’s business structure within China and outside of China was not changed prior to, and has not changed since, the MOE. Fourth, we are not aware of any past transactions of the same or a similar nature and structure as our MOE ever having been made subject to Circular 698. After the completion of the MOE, VanceInfo made the filing under Circular 698 with the competent tax authority where one of its PRC subsidiaries is located in accordance with the filing requirements under Bulletin 24. VanceInfo has not yet received any notice or order from the tax bureau on any additional interviews, enquiries, or instructions in relation to the filing, nor is VanceInfo aware of any further action taken by the tax bureau or its superior competent authorities. However, we cannot assure you that the relevant tax bureaus will not require VanceInfo or our company to retroactively deduct or withhold any amount from the MOE Consideration since tax bureaus generally have discretion to conduct further investigation according to the PRC tax laws. In the event that Circular 698 and Circular 7 are determined by the tax bureaus to be applicable and as a result, a deduction or withholding is required, VanceInfo or our company may be required to deduct and withhold from the consideration otherwise payable pursuant to the MOE agreement such amounts as the competent tax authority reasonably determines to be deducted and withheld with respect to the making of such payment under any applicable tax laws of the PRC. To the extent that amounts are so withheld and paid over to the appropriate governmental entity, such withheld amounts shall be treated for all purposes of the MOE agreement as having been paid by the holders of VanceInfo’s American depositary shares or VanceInfo shareholders in respect to which such deduction and withholding was made. We cannot assure you that we will get reimbursed for such withheld amounts from any of the holders of VanceInfo’s American depositary shares or VanceInfo shareholders.

The enforcement of the Labor Contract Law, Social Insurance Law and other labor-related regulations in China may adversely affect our reputation, business, results of operations and prospects.

On June 29, 2007, the National People’s Congress of China enacted the Labor Contract Law, which became effective on January 1, 2008, as amended on July 1, 2013.

The Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labor union and employee representative’s council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. An employee is typically required to provide severance payment to an employee after the employment relationship is terminated. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to fifteen days, depending on the number of the employee’s working years at the employer. Employees who waive such vacation time at the request of employers are entitled to compensation equal to three times their regular daily salary for each waived vacation day. As a result of these new measures designed to enhance labor protection, our labor costs are expected to increase, which may adversely affect our business and our results of operations. In addition, the PRC government in the future may enact further labor-related legislation that increases our labor costs and restricts our operations.

Furthermore, according to the Labor Contract Law and its implementing rules, if we intend to enforce the non-competition provisions with our employees in the employment agreements or

confidentiality agreements, we have to compensate our employees on a monthly basis during the term of the restriction period after the termination or ending of the employment contract, which may cause extra expenses to us.

In addition, under the applicable PRC laws and regulations, including the Social Insurance Law promulgated by the Standing Committee of the National People's Congress and effective as of July 1, 2011 (the "PRC Social Insurance Law") our operating subsidiaries in the PRC are required to make mandatory contributions to a number of social insurance schemes for their employees who are eligible for such benefits, which include pension, unemployment insurance, childbirth insurance, work-related injury insurance, and medical insurance. Under the Regulations on Management of Housing Provident Fund promulgated by the PRC State Council as of March 24, 2002 and the applicable local implementing rules, our operating subsidiaries in the PRC are required to make mandatory contributions to and housing fund plans. We may have not fully complied with the social insurances and housing fund plan contribution requirements for our employees.

According to the Labor Contract Law, unless otherwise provided by law, an employer is obliged to sign an open-ended labor contract with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts or if the employee has worked for the employer for ten consecutive years. Such open-ended contract is only terminable in the event that a statutory termination cause is satisfied (such as material violation of disciplinary policy, or remaining incapacity after training or change of position). Such open-ended employment contracts may substantially increase our employment-related risks and limit our ability to downsize our workforce in event of an economic downturn.

As a result of these measures designed to enhance labor protection, our labor costs may increase and we cannot assure you that our employment practices do not or will not violate the Social Insurance Law and other labor-related regulations. If we are deemed to have been noncompliant with any such laws and regulations or to have failed to make adequate contributions to any social insurance schemes, we may be subject to penalties and negative publicity, and our business, results of operations and prospects may be materially adversely affected.

The PRC legal system embodies uncertainties which could limit the legal protections available to you and us.

As our main operating entities and a substantial majority of our assets are located in China, PRC laws and the PRC legal system in general may have a significant impact on our business operations. Although China's legal system has developed over the last several decades, PRC laws, regulations and legal requirements remain underdeveloped relative to the United States. Moreover, PRC laws and regulations change frequently and their interpretation and enforcement involve uncertainties. For example, the interpretation or enforcement of PRC laws and regulations may be subject to government rules or policies, some of which are not published on a timely basis or at all. In January 2015, MOFCOM published a discussion draft of the proposed Foreign Investment Law aiming to, upon its enactment, replace the existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The draft Foreign Investment Law embodies an expected PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. MOFCOM has solicited comments on this draft and substantial uncertainties exist with respect to its enactment timetable, the final version, interpretation and implementation. In addition, the relative inexperience of China's judiciary in some cases may create uncertainty as to the outcome of litigation. These uncertainties could limit our ability to enforce our legal or contractual rights or otherwise adversely affect our business and operations, especially in relation to contracts with government entities, including state-owned enterprise. Certain of our major customers are state-owned enterprises in China. Furthermore, due to the existence of unpublished

rules and policies, and since newly issued PRC laws and regulations may have a retroactive effect, we may not be aware of our violation of certain PRC laws, regulations, policies or rules until after the fact.

If the CSRC or another PRC regulatory agency, determines that CSRC approval was required in connection with Pactera or VanceInfo's initial public offering or follow-on public offering, we may become subject to penalties.

On August 8, 2006, six PRC regulatory agencies, including the CSRC, promulgated the Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, which became effective on September 8, 2006 and were amended on June 22, 2009. Under these regulations, the prior approval of the CSRC is required for the overseas listing of offshore special purpose vehicles that are directly or indirectly controlled by PRC companies or individuals and used for the purpose of listing PRC onshore interests on an overseas stock exchange.

Pactera completed the initial listing and trading of our ADSs on the NASDAQ Global Market (which was subsequently elevated to the NASDAQ Global Select Market on January 3, 2011) in December 2010, and VanceInfo completed the initial listing and trading of its American depositary shares on the New York Stock Exchange in December 2007. Neither Pactera nor VanceInfo sought CSRC approval in connection with the initial public offerings and follow-on public offerings. Our PRC counsel, Fangda Partners, has advised us that, based on their understanding of the current PRC laws and regulations as well as the procedures announced on September 21, 2006:

- The CSRC currently has not issued any definitive rule or interpretation concerning whether offerings like Pactera or VanceInfo's public offerings are subject to this new procedure; and
- In spite of the above, given that each of Pactera and VanceInfo has completed our restructuring before September 8, 2006, the effective date of these regulations, such regulations do not require an application to be submitted to the CSRC for the approval of the issuance and sale of Pactera's ADSs and common shares and VanceInfo's ordinary shares and American depositary shares, or the listing and trading of Pactera's ADSs on the NASDAQ Global Market (which was subsequently elevated to the NASDAQ Global Select Market on January 3, 2011) and VanceInfo's American depositary shares on the New York Stock Exchange.

However, there remains some uncertainty as to how these regulations will be interpreted or implemented. If the CSRC or another PRC regulatory agency subsequently determines that the CSRC's approval was required for Pactera or VanceInfo's initial public offerings or follow-on public offerings, we may face sanctions by the CSRC or another PRC regulatory agency. If this happens, these regulatory agencies may impose fines and penalties on our operations in China, limit our operating privileges in China, delay or restrict the repatriation of the proceeds from our initial public offering and follow-on public offering into China, restrict or prohibit payment or remittance of dividends by our PRC subsidiaries to us, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors could make it more difficult for us to make future acquisitions or dispose of our business operations or assets in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors also established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time- consuming and complex, including a requirement that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise or a foreign company with substantial PRC operations, if

either threshold under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings issued by the State Council on August 3, 2008 is triggered.

Furthermore, MOFCOM promulgated the Rules of Ministry of Commerce on Implementation of Security Review System of Mergers and Acquisition of Domestic Enterprises by Foreign Investors in August 2011 (the “MOFCOM Security Review Rules”) which became effective on September 1, 2011, for the implementation of the Notice of the General Office of the State Council on Establishing the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors promulgated on February 3, 2011 (“Circular No. 6”). According to the MOFCOM Security Review Rules, a security review is required for mergers and acquisitions by foreign investors (i) involving PRC domestic enterprises with “national defense and security” concerns and (ii) where the foreign investors may acquire “de facto control” of the PRC domestic enterprises with national security concerns such as key farm products, key energy and resources, and key infrastructure, transportation, technology and major equipment manufacturing industries. Circular No. 6, however, does not define the term of “key” or “major,” nor has it exhausted all the industries that may be deemed as sensitive industries subject to the security review. When deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to the security review by MOFCOM, the principle of “substance over form” should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through nominee holding structure, trusts, indirect investments, leases, loans, control through contractual arrangements, offshore transactions, or other means.

Since 2005, we have expanded our operations through a series of acquisitions and investments. Complying with the requirements of these new regulations in order to complete any future transactions could be time-consuming, and any required approval processes, including approval from MOFCOM, may delay or inhibit our ability to complete any future transactions, which could affect our ability to expand our business or maintain our market share. In addition, such additional procedures and requirements could make it more difficult or time-consuming for us to dispose of any of our business operations or assets in China.

A failure by our shareholders or beneficial owners who are PRC citizens or residents in China to comply with certain PRC foreign exchange regulations could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities or subject us to liability under PRC laws, which could adversely affect our business and financial condition.

On July 4, 2014, the SAFE promulgated the SAFE Circular 37, which replaced the SAFE Circular 75 promulgated by the SAFE on October 21, 2005.

SAFE Circular 37 requires PRC residents to register with local branches of SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to complete the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiary. In addition, SAFE Circular 37 requires deregistration with local branches of SAFE in the event that the PRC residents no longer hold any beneficial interests in the special purpose vehicles. The failure of our former beneficial owners who are PRC residents to complete such deregistration may subject them or our PRC subsidiaries to fines and legal sanctions. Furthermore, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls.

We have urged our shareholders and beneficial owners who are PRC residents to make the necessary applications and filings as required under SAFE Circular 37 and other related rules. Prior to the MOE, we understand that our former PRC citizen or resident beneficial owners had completed initial registrations with the local counterpart of SAFE in Dalian under SAFE Circular 75. With respect to VanceInfo, Mr. Chris Shuning Chen, our former chairman, Mr. Stanley Ying Zhou, our former executive vice president, and Mr. Kevin Zhong Liu, one of our former employees, had made the requisite SAFE registration with respect to their investment and beneficial ownership prior to the MOE under SAFE Circular 75 and have applied to amend their initial registrations as a result of the MOE under SAFE Circular 37. However, as a result of the 2014 Merger, we understand that our former PRC citizen or resident beneficial owners who no longer hold any beneficial ownership in us are required to deregister their previous registrations with the local counterparts of SAFE, and certain of our PRC subsidiaries which have registered with the local counterparts of SAFE as roundtrip-invested enterprises are also required to amend their registrations to remove the identification as roundtrip-invested enterprises. Our subsidiaries, Pactera Dalian and Pactera Shenzhen have completed the amendment registrations to remove the roundtrip-invested enterprise identification with the local counterparts of SAFE, while our other PRC subsidiaries are still preparing for the application for such amendment registrations with the relevant local counterparts of SAFE. According to the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment released on February 13, 2015 by SAFE, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37 from June 1, 2015. Following the 2017 Merger, we became indirectly invested by HNA, a PRC company. As such, our foreign invested enterprises in China are required to make amendment registration to reflect the change. We plan to complete the aforesaid amendment registration as soon as practicable. However, we cannot assure you that the amendment registration could be completed in a prompt way due to uncertainty in the regulations and practice of local counterparts of SAFE and banks. Furthermore, we cannot assure you that all of our former or future shareholders or beneficial owners who are PRC citizens or residents have complied or will comply with, and will in the future make or obtain any applicable registrations or approvals or make any deregistration required by, SAFE Circular 37 or other related regulations. In addition, it remains unclear how SAFE Circular 37, and any future legislation concerning offshore or cross border transactions, will be interpreted, amended and implemented by the relevant government authorities. The failure of our beneficial owners who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37, the failure of future beneficial owners of our company who are PRC residents to comply with the registration procedures set forth in SAFE Circular 37, or the failure of our foreign invested enterprises in China to comply with relevant SAFE regulations may subject such beneficial owners or our PRC subsidiaries to fines and legal sanctions. Failure to register or amend the registrations may also limit our ability to contribute additional capital to our PRC subsidiaries or receive dividends or other distributions from our PRC subsidiaries or other proceeds from disposal of our PRC subsidiaries, or we may be penalized by SAFE. See also “—Risks Related to China—Restrictions under PRC law on our PRC subsidiaries’ ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to HNA Ecotech, make payments under the Notes and otherwise fund and conduct our businesses.”

A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Individual Foreign Exchange Rules promulgated on January 5, 2007 by SAFE and the Stock Option Rules promulgated on February 20, 2012, which supersedes the Operating Procedures on Administration of Foreign Exchange for Domestic Individuals Participating in Employee Share Ownership Plans and Share Option Plans, etc. of Overseas Listed Company issued by SAFE on March 28, 2007, PRC citizens or residents habitually residing in the PRC continuously for over one year, with a few exceptions, who have been granted shares or share options by an

overseas listed company according to its employee shareholding plan, share option plan or other similar share incentive plans are required to, through the PRC subsidiary of such overseas listed company to appoint qualified PRC agents, register with SAFE or its local counterparts and complete certain other procedures related to the share option or share incentive plan. Concurrent with the registration with SAFE or its local counterparts, the qualified PRC agent shall obtain an approval from SAFE for an annual allowance in connection with the foreign exchange in connection with shareholding or share option exercises as well as an approval for opening a special foreign exchange account at a PRC domestic bank to hold the funds in connection with the share purchase or share option exercise, returned principal or profits upon sales of shares, dividends issued on the stock and any other income or expenditures approved by SAFE. Currently, foreign exchange income of the participating PRC residents received from the sale of share and dividends distributed by the overseas listed company are required to be fully remitted into such special domestic foreign currency account before the distribution to such participants. In addition, the PRC agents are required to amend or deregister the registrations with SAFE or its local counterparts in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Stock Option Rules. In addition, pursuant to SAFE Circular 37, PRC residents who participate in share incentive plans in overseas non-publicly-listed companies may submit applications to SAFE or its local branches for the foreign exchange registration with respect to offshore special purpose vehicles.

We and our PRC resident employees who are the participants of our share incentive plans (including VanceInfo's PRC resident employees whose VanceInfo share options and restricted share units have been assumed by us and replaced by our share options and restricted share units at the effective time of the MOE), are subject to these rules. We and our PRC resident employees who are subject to these rules are in the process of completing amendment registrations as required under the Stock Option Rules in relation to the change of our share incentive plans resulting from the MOE in November 2012 and our acquisition or establishment of certain subsidiaries. If we or our PRC option holders fail to comply with these rules, we or our PRC option holders may be subject to fines and legal or administrative sanctions.

In addition, VanceInfo Financial Solutions Limited, which was renamed later as Pactera Financial Solutions Limited ("Pactera Financial Solutions"), our wholly owned subsidiary incorporated in British Virgin Islands, has adopted a Share Incentive Plan in 2011 (the "PFS 2011 Share Incentive Plan"), and Parent has adopted an Omnibus Incentive Plan in August 2014 (the "BCP Incentive Plan") and a new share incentive plan in January 2017 (the "2017 New Share Incentive Plan"). However, we did not register such plans with SAFE pursuant to the then effective Individual Foreign Exchange Rule. So far, there is no PRC law other than SAFE Circular 37 expressly allowing issuance of options or restricted shares by an offshore private company to PRC resident employees. In addition, in practice, SAFE generally does not accept any application for registration of an incentive plan by an offshore private company, neither does it accept any application by relevant PRC resident employees for converting RMB into U.S. dollars for the purposes of paying share option exercise prices or share prices under relevant share incentive plans. If the failure of registration of PFS 2011 Share Incentive Plan, BCP Incentive Plan or 2017 New Share Incentive Plan is deemed as non-compliance by SAFE, we and the option participants who are PRC residents may be subject to legal and administrative sanctions, and adoption of the PFS 2011 Share Incentive Plan, BCP Incentive Plan or 2017 New Share Incentive Plan may be challenged by SAFE.

PRC government restrictions on the convertibility of RMB may limit our ability to effectively utilize our revenues and funds.

A majority of our net revenues are generated in RMB, U.S. dollars or Japanese yen, while most of our costs are denominated in RMB. In order for us to effectively utilize our revenues and the funds raised in our initial public offering and the follow-on public offering, we need to conduct currency exchanges between RMB and other currencies. Under PRC regulations as the date of this annual report, RMB is convertible for "current account transactions," which include, among other things, dividend payments and payments for the import of goods and services. Our PRC subsidiaries

may also retain foreign exchange in their respective current account bank accounts for use in payment of international current account transactions. Although the RMB has been fully convertible for current account transactions since 1996, we cannot assure you that the relevant PRC government authorities will not limit or eliminate our ability to purchase and retain foreign currencies for current account transactions in the future. Conversion of RMB into foreign currencies, and of foreign currencies into RMB, for payments relating to “capital account transactions,” which principally include investments and loans, generally requires the approval of SAFE and other relevant PRC governmental authorities.

On August 29, 2008, SAFE promulgated SAFE Circular 142, a notice regulating the conversion by a foreign-invested company of foreign currency into RMB by restricting how the converted RMB may be used. SAFE Circular 142 requires that RMB converted from the foreign currency-denominated registered capital of a foreign-invested company may only be used for purposes within the company’s business scope approved by the applicable governmental authority and may not be used for equity investments within the PRC unless specifically provided for otherwise in its duly-approved business scope. In addition, SAFE strengthened its oversight of the flow and use of RMB funds converted from the foreign currency-denominated registered capital of a foreign-invested company. The use of such RMB may not be changed without approval from SAFE, and may not in any case be used to repay RMB loans if the proceeds of such loans have not yet been used. Violations of SAFE Circular 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations. As a result, SAFE Circular 142 may significantly limit our ability to transfer funds to our PRC subsidiaries in the PRC, which may adversely affect our liquidity and our ability to fund and expand our business in the PRC, and we may not be able to convert funds into RMB to invest in or acquire any other PRC companies. Furthermore, SAFE promulgated SAFE Circular 59 on November 19, 2012, which tightens the examination of the authenticity of settlement of net proceeds from an offering and requires that the settlement of net proceeds be in accordance with the description in the relevant annual report.

SAFE further reformed the foreign exchange administration system by issuing the Circular on the Relevant Issues Concerning the Launch of Reforming Trial of the Administration Model of the Settlement of Foreign Currency Capital of Foreign-Invested Enterprises in Certain Areas on August 4, 2014. This circular suspends the application of SAFE Circular 142 in certain areas and allows a foreign-invested enterprise registered in such areas with a business scope covering “investment” to use the RMB capital converted from foreign currency registered capital for equity investments within the PRC. On March 30, 2015, SAFE released SAFE Circular 19 which came into force and superseded SAFE Circular 142 beginning on June 1, 2015. SAFE Circular 19 has made certain adjustments to some regulatory requirements on the settlement of foreign exchange capital of foreign-invested enterprises, and some foreign exchange restrictions under SAFE Circular 142 are expected to be lifted. However, considering that SAFE Circular 19 is relatively new, it is unclear how it will be implemented and there remains uncertainty with respect to its interpretation and implementation by authorities.

On February 28, 2015, SAFE released SAFE Circular 13 which came into effect on June 1, 2015. According to SAFE Circular 13, local banks shall examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37. On January 26, 2017, SAFE released the Notice on Further Promoting the Administration and Reform of Foreign Exchange and Improving Review of Authenticity and Compliance. Under this notice, SAFE emphasized that local banks shall review documentary evidences with respect to remittance of foreign exchange profits from China or to outbound direct investments under the principle of authenticity and compliance, and further expanded the scope of documentary evidences the local banks shall review. However, since such notices are relatively new, there remains uncertainty with respect to their interpretation and implementation by governmental authorities and banks, and we cannot predict how such SAFE regulations may affect our business operations.

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using our funds available to us outside China, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

In utilizing the funds we received or will receive outside of China without providing any security provided by PRC subsidiaries, as an offshore holding company of our PRC subsidiaries, we may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals or filings, as applicable. For example, loans by us in foreign currencies to our wholly-owned subsidiaries, which are foreign-invested enterprises in China, to finance their activities cannot exceed statutory limits and must be registered or filed with SAFE or its local counterparts.

We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by or filed with China's Ministry of Commerce or its local counterparts, as applicable, and be registered with local Administration for Industry and Commerce. We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, or at all. If we fail to receive such registrations or approvals, our ability to use funds we received or will receive outside China and to capitalize our PRC operations may be negatively affected, which could materially adversely affect our liquidity and our ability to fund and expand our business.

Restrictions under PRC law on our PRC subsidiaries' ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to HNA Ecotech, makes payments under the Notes and otherwise fund and conduct our businesses.

A majority of our revenues are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent company. PRC legal restrictions permit payments of dividends by our PRC subsidiaries only out of their accumulated after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. Each of our PRC subsidiaries (other than Chinese-foreign equity joint ventures) is also required under PRC laws and regulations to allocate at least 10% of its annual after-tax profits determined in accordance with PRC accounting standards to a statutory general reserve fund until the cumulative amount in such fund reaches 50% of the company's registered capital. Each of our PRC subsidiaries is also required to set aside a certain amount of its after-tax profits each year, if any, to fund a staff welfare fund. Also, each of our PRC subsidiaries that is a Chinese-foreign equity joint venture is required to set aside a certain amount of its after-tax profits each year, if any, to fund a reserve fund and an enterprise expansion fund. However, the specific amounts of the staff welfare fund or enterprise expansion fund are subject to the discretion of the board of directors of the relevant subsidiary. Allocations to these statutory reserve funds can only be used for specific purposes and are not transferable to us in the form of loans, advances or dividends. As of December 31, 2016, our PRC subsidiaries had allocated \$25.7 million to these statutory reserve funds. The total amount of our restricted net assets was \$116.9 million as of December 31, 2016. Any limitations on the ability of our PRC subsidiaries to transfer funds to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our business, make payments under the Notes and otherwise fund and conduct our business. See "Regulations—Regulations on Dividend Distribution."

Any future outbreak of a severe form of H1N1 or H7N9 influenza, severe acute respiratory syndrome or avian flu in China, or any similar adverse public health developments, may disrupt our business and operations.

Adverse public health epidemics or pandemics could disrupt businesses operations and economic activities in China. For example, from December 2002 to June 2003, China and certain other countries experienced an outbreak of a new and highly contagious form of atypical pneumonia

now known as severe acute respiratory syndrome (“SARS”). During May and June of 2003, many businesses in China were temporarily closed by the PRC government to prevent transmission of SARS. The World Health Organization has announced that there is a high likelihood of an outbreak of avian flu in Asia, with the potential to be as disruptive as if not more disruptive than SARS. In 2009, occurrences of H1N1 influenza were reported throughout the world, including in China. Recently, it has been reported outbreaks of an avian flu caused by the H7N9 virus, including confirmed human cases, in several regions in China. Any recurrence of the SARS outbreak, an avian flu outbreak, a severe H1N1 influenza outbreak, or the development of H7N9 influenza or a similar health hazard in China, may disrupt our business and operations and prevent us from providing our services in a timely manner.

HNA Ecotech may be subject to Cayman Islands Anti-Money Laundering Legislation.

The Proceeds of Crime Law (the “PCL”) is the primary legislation in the Cayman Islands intended to combat the activity of money laundering. The Money Laundering Regulations (the “Regulations”) are promulgated under the PCL and apply to persons engaged in relevant financial business. To the extent that HNA Ecotech engages in relevant financial business (as such term is defined in the Regulations) and the Regulations apply to HNA Ecotech, HNA Ecotech is required, in conducting the relevant financial business, to maintain client identification procedures, keep “know your client” and suspicious transaction records, establish internal reporting procedures for suspicious transactions, and have in place internal controls and communication procedures which are appropriate for the purposes of forestalling and preventing money laundering. Such businesses are also required to have in place adequate training for staff on their obligations under the law with respect to money laundering. In addition, there is an obligation to report any suspicion that a payment received by such business contains the proceeds of commercial conduct.

Failure to comply with the requirements of the Regulations constitutes an offence punishable on summary conviction to a fine of five thousand dollars or on indictment to imprisonment for up to two years and a fine. It is a defense to show that a person took all reasonable steps and exercised all due diligence to avoid committing the offence.

Where an offence under the Regulations is committed by a company or partnership and is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of, a director, manager, secretary, partner or controlling member, such person shall be guilty of that offence and shall be liable to be proceeded against and punished accordingly, in addition to the company or partnership.

Risks Related to the Notes and Our Indebtedness

Our substantial indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations under the Notes.

As of December 31, 2016, we had approximately \$314.1 million of total debt outstanding, which required significant interest and principal payments. On January 3, 2017, we paid off all amounts outstanding under, and terminated the credit agreements governing our \$30.0 million equivalent multi-currency revolving credit facility (“Offshore Revolver”), our \$20.0 million equivalent RMB revolving credit facility (“Onshore Revolver,” collectively with the Offshore Revolver, “Senior Secured Credit Facilities”). On February 2, 2017, in connection with the completion of the 2017 Merger, we made a Change of Control Offer (as defined in the Indenture governing the Notes (the “Indenture”)) to holders of the Notes pursuant to the terms of the Indenture, offering to purchase the Notes from noteholders at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest on such Notes to the purchase date. The Change of Control Offer expired on March 29, 2017, and \$169.4 million aggregate principal amount of the Notes were validly tendered and repurchased and cancelled by us on April 3, 2017. The Notes that were not tendered remain outstanding following the completion of the Change of Control Offer.

Under the Indenture, we may be able to incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could increase. Specifically, our high level of debt could have important consequences to the holders of the Notes, including the following:

- making it more difficult for us to satisfy our obligations with respect to the Notes and our other debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions or other general corporate requirements;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings are at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the industry in which we compete;
- placing us at a disadvantage compared to other, less leveraged competitors; and
- increasing our cost of borrowing.

Despite our current level of indebtedness, we may incur substantially more debt and enter into other transactions which could further exacerbate the risks to our financial condition described above.

We may incur significant additional indebtedness in the future. For the year ended December 31, 2016, our interest expense was approximately \$31.4 million. As of December 31, 2016, we had an aggregate principal amount of \$314.1 million of outstanding total indebtedness. Although the Indenture contains restrictions on the incurrence of additional indebtedness and entering into certain types of other transactions, these restrictions are subject to a number of qualifications and exceptions. Additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also do not prevent us from incurring obligations, such as trade payables, that do not constitute indebtedness as defined under our debt instruments. To the extent new debt is added to our currently anticipated debt levels, the substantial leverage risks described in the previous risk factor would increase. In addition, the exceptions to the restrictive covenants permit us to enter into certain other transactions.

HNA Ecotech is a holding company and its principal asset is its ownership of the shares of Pactera and its subsidiaries; accordingly, HNA Ecotech will be dependent upon distributions from Pactera and its subsidiaries to make payments in respect of the Notes and to pay taxes and any other expenses.

HNA Ecotech is a holding company and its principal asset is its ownership of the shares of Pactera and its subsidiaries. HNA Ecotech has no independent means of generating revenue and will rely on distributions or loans from its subsidiaries or other sources of funds to make payments in respect of the Notes and its other outstanding indebtedness. However, Pactera and its subsidiaries, especially the PRC subsidiaries, may be subject to laws that limit their abilities to make payments to HNA Ecotech. See “— Risks Related to China — Under the New EIT Law, we may be classified as a

‘resident enterprise’ of China. Such classification would likely result in unfavorable tax consequences to us;” “— Risks Related to China — PRC government restrictions on the convertibility of RMB may limit our ability to effectively utilize our revenues and funds;” and “— Risks Related to China — Restrictions under PRC law on our PRC subsidiaries’ ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to HNA Ecotech, make payments under the Notes and otherwise fund and conduct our business.” To the extent that HNA Ecotech needs funds and its subsidiaries are unable or otherwise restricted from making such distributions under applicable law or regulation, HNA Ecotech’s liquidity and financial condition would be adversely affected and HNA Ecotech may be unable to satisfy its obligations under the Notes or under its other indebtedness.

We may be unable to service our indebtedness, including the Notes.

Our ability to make scheduled payments on and to refinance our indebtedness, including the Notes, depends on and is subject to our financial and operating performance, which in turn is affected by general and regional economic, financial, competitive, business and other factors beyond our control, including the availability of financing in the international banking and capital markets. We cannot assure you that our business will generate sufficient cash flows from operations or that future borrowings will be available to us in an amount sufficient to enable us to service our debt, including the Notes, to refinance our debt or to fund our other liquidity needs. Moreover, HNA Ecotech is a holding company and accordingly is dependent upon distributions from its subsidiaries to make payments in respect of the Notes. See “—HNA Ecotech is a holding company and its principal asset is its ownership of the shares of Pactera and its subsidiaries; accordingly, HNA Ecotech will be dependent upon distributions from Pactera and its subsidiaries to make payments in respect of the Notes and to pay taxes and any other expenses.”

If we are unable to meet our debt service obligations or to fund our other liquidity needs, we will need to restructure or refinance all or a portion of our debt, including the Notes, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants that could further restrict our business operations.

Moreover, in the event of a default, the holders of our indebtedness, including the Notes, could elect to declare all the funds borrowed to be due and payable, together with accrued and unpaid interest.

The consummation of the Change of Control Offer and any further purchase by us and/or our affiliates of our outstanding debt securities may reduce the trading liquidity of such securities.

In connection with the 2017 Merger, we made a Change of Control Offer to holders of Notes on February 2, 2017, which was completed on April 3, 2017. The Notes that were tendered and accepted in the Change of Control Offer ceased to be outstanding and were cancelled. As a result, any existing trading market for the remaining Notes may become more limited.

In addition, as market conditions warrant, we and/or our affiliates may from time to time seek to purchase our outstanding debt securities, including the Notes, in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any purchases made by us may be funded by the use of cash on our balance sheet or the incurrence of new secured or unsecured debt. The amounts involved in any such purchase transactions, individually or in the aggregate, may be material. Any such purchases may be with respect to a substantial amount of a particular class or series of debt, with the attendant reduction in the trading liquidity of such class or series.

A debt security with a smaller outstanding principal amount available for trading, which is referred to as a smaller “float,” may command a lower price than would a comparable debt security

with a greater float. Therefore, the market price for Notes not purchased in the Change of Control Offer or any such other purchases may be adversely affected if the amount of Notes so purchased reduces the float of the Notes. The reduced float may also make the trading price more volatile. Moreover, there can be no assurance that any trading market will exist for the Notes following the Change of Control Offer and any such other purchases. The extent of the public market for the Notes, if any, following the completion of the Change of Control Offer and any such other purchases, will depend upon the number of noteholders remaining at such time, the interest in maintaining a market in the Notes on the part of securities firms and other factors. Please also see “—An active trading market may not be maintained for the Notes.”

Our variable rate indebtedness subjects us to interest rate risk, which could cause our indebtedness service obligations to increase significantly.

Borrowings under a \$78.0 million equivalent RMB revolving credit facility are at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our net income and cash flows, including cash available for servicing our indebtedness, would correspondingly decrease.

The Indenture imposes significant operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities.

The Indenture imposes significant operating and financial restrictions on us. These restrictions will limit our ability to, among other things:

- incur or guarantee additional debt or issue disqualified stock or preferred stock;
- pay dividends and make other distributions on, or redeem or repurchase, capital stock;
- make certain investments;
- incur certain liens;
- enter into transactions with affiliates;
- merge or consolidate;
- enter into agreements that restrict the ability of restricted subsidiaries to make dividends or other payments to HNA Ecotech;
- designate restricted subsidiaries as unrestricted subsidiaries; and
- transfer or sell assets.

As a result of these restrictions, we are limited as to how we conduct our business and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders and/or amend the covenants.

Our failure to comply with the restrictive covenants described above as well as other terms of any future indebtedness from time to time could result in an event of default, which, if not cured or waived, could result in our being required to repay these borrowings before their due date. If we are forced to refinance these borrowings on less favorable terms or cannot refinance these borrowings,

our results of operations and financial condition could be adversely affected. We cannot assure you that our assets or cash flows would be sufficient to fully repay borrowings under our outstanding debt instruments if accelerated upon an event of default. Further, if we are unable to repay, refinance or restructure our indebtedness under our secured debt, the holders of such debt could proceed against the collateral securing that indebtedness. In addition, any event of default or declaration of acceleration under one debt instrument could also result in an event of default under one or more of our other debt instruments.

Claims of holders of the Notes will be structurally subordinated to claims of creditors of certain of our subsidiaries that will not guarantee the Notes.

The Notes are not guaranteed by certain of our existing and future subsidiaries, including all of the PRC subsidiaries and certain subsidiaries deemed “immaterial” or otherwise considered excluded subsidiaries. Accordingly, claims of holders of the Notes will be structurally subordinated to the claims of creditors of these non-guarantor subsidiaries, including trade creditors, and will not be satisfied from the assets of these non-guarantor subsidiaries until their creditors are paid in full. For the 12 months ended December 31, 2016, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 77.0% of our revenues, and as of December 31, 2016, before intercompany eliminations, our non-guarantor subsidiaries represented approximately 50.8% of our total assets and approximately 61.1% of our total liabilities. All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the Notes. The Indenture permits these subsidiaries to incur certain additional debt and does not limit their ability to incur other liabilities that are not considered indebtedness under the Indenture.

Federal and state statutes may allow courts, under specific circumstances, to void the Notes, the guarantees and the security interests, subordinate claims in respect of the Notes, the guarantees and the security interests and/or require holders of the Notes to return payments received from us.

Under federal bankruptcy laws and comparable provisions of state fraudulent transfer laws, the Notes, the guarantees and the security interests, could be voided, or claims in respect of the Notes, the guarantees and the security interests, could be subordinated to all of our other debt, if the issuance of the Notes, a guarantee or a grant of security was found to have been made for less than reasonable equivalent value and we, at the time we incurred the indebtedness evidenced by the Notes:

- were insolvent or rendered insolvent by reason of such indebtedness;
- were engaged in, or about to engage in, a business or transaction for which our remaining assets constituted unreasonably small capital; or
- intended to incur, or believed that we would incur, debts beyond our ability to repay such debts as they mature.

A court might also void the issuance of the Notes, a guaranty or a grant of security, without regard to the above factors, if the court found that we issued the Notes or the guarantors entered into the applicable guaranty or security agreements with actual intent to hinder, delay or defraud our or their respective creditors.

A court would likely find that we or a guarantor did not receive reasonably equivalent value or fair consideration for the Notes, the guarantees and the security agreements, respectively, if we or a guarantor did not substantially benefit directly or indirectly from the issuance of the Notes. If a court were to void the issuance of the Notes, the guarantees or the related security agreements, you would no longer have a claim against us or the guarantors or a claim with respect to the related collateral. Sufficient funds to repay the Notes may not be available from other sources, including the remaining

guarantors, if any. In addition, the court might direct you to repay any amounts that you already received from us or the guarantors or, with respect to the Notes, any guarantee or the collateral.

In addition, any payment by us pursuant to the Notes made at a time when we were subsequently found to be insolvent could be voided and required to be returned to us or to a fund for the benefit of our creditors if such payment is made to an insider within a one-year period prior to a bankruptcy filing or within 90 days for any outside party and such payment would give the creditors more than such creditors would have received in a liquidation under title 11 of the United States Code, as amended (the “Bankruptcy Code”).

The measures of insolvency for purposes of these fraudulent and preferential transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent or preferential transfer has occurred. Generally, however, we would be considered insolvent if:

- the sum of our debts, including contingent liabilities, were greater than the fair saleable value of all our assets;
- the present fair saleable value of our assets were less than the amount that would be required to pay our probable liability on existing debts, including contingent liabilities, as they become absolute and mature; or
- we could not pay our debts as they become due.

On the basis of historical financial information, recent operating history and other factors, we believe that, as of the date of this annual report, we were not insolvent, did not have unreasonably small capital for the business in which we were engaged and did not incur debts beyond our ability to pay such debts as they mature. There can be no assurance, however, as to what standard a court would apply in making such determinations or that a court would agree with our conclusions in this regard. The Indenture contains a “savings clause,” which limits the liability of each guarantor on its guarantee to the maximum amount that such guarantor can incur without risk that its guarantee will be subject to avoidance as a fraudulent transfer. We cannot assure you that this limitation will protect such guarantees from fraudulent transfer challenges or, if it does, that the remaining amount due and collectible under the guarantees would suffice, if necessary, to pay the Notes in full when due. Furthermore, in the case of *Official Committee of Unsecured Creditors of TOUSA, Inc. v. Citicorp North America, Inc.*, the U.S. Bankruptcy Court in the Southern District of Florida held that a savings clause similar to the savings clause that will be included in the Indenture was unenforceable. As a result, the subsidiary guarantees were found to be fraudulent conveyances. The United States Court of Appeals for the Eleventh Circuit recently affirmed the liability findings of the Bankruptcy Court without ruling directly on the enforceability of savings clauses generally. If the TOUSA decision were followed by other courts, the risk that the guarantees would be deemed fraudulent conveyances would be significantly increased.

In addition, although each guarantee will contain a provision intended to limit that guarantor’s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer, this provision may not be effective to protect those guarantees from being voided under fraudulent transfer law, or may reduce that guarantor’s obligation to an amount that effectively makes its guarantee worthless.

Finally, as a court of equity, the bankruptcy court may subordinate the claims in respect of the Notes to other claims against us under the principle of equitable subordination, if the court determines that: (i) the holders of the Notes engaged in some type of inequitable conduct; (ii) such inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holder of the Notes; and (iii) equitable subordination is not inconsistent with the provisions of the Bankruptcy Code.

Because each guarantor's liability under its guarantees may be reduced to zero, avoided or released under certain circumstances, holders of Notes may not receive any payments from some or all of the guarantors.

Holders of Notes have the benefit of the guarantees of the guarantors. However, the guarantees by the guarantors are limited to the maximum amount that the guarantors are permitted to guarantee under applicable law. As a result, a guarantor's liability under its guarantee could be reduced to zero, depending upon the amount of other obligations of such guarantor. Further, under the circumstances discussed more fully above, a court under federal and state fraudulent conveyance and transfer statutes could void the obligations under a guarantee or further subordinate it to all other obligations of the guarantor. See "—Federal and state statutes may allow courts, under specific circumstances, to void the Notes, the guarantees and the security interests, subordinate claims in respect of the Notes, the guarantees and the security interests and/or require holders of the Notes to return payments received from us." In addition, you will lose the benefit of a particular guarantee if it is released under certain circumstances.

We may not be able to finance a change of control offer required by the Indenture.

As mentioned above, we made a Change of Control Offer in connection with the 2017 Merger, which was completed on April 3, 2017. We made payment on the Notes validly tendered in the Change of Control Offer on April 3, 2017, using funds made available to us by HNA.

Should there occur another corporate event that constitutes a "change of control" under the Indenture, we will be required to make another change of control offer. In the event we fail to purchase all validly tendered Notes in such change of control offer, it would be an event of default under the Indenture.

Certain important corporate events, such as leveraged recapitalizations, may not, under the Indenture, constitute a "change of control" that would require us to repurchase the Notes, notwithstanding the fact that such corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the Notes. In addition, the definition of Change of Control in the Indenture includes a phrase relating to the sale of "all or substantially all" of our assets. There is no precise established definition of the phrase "substantially all" under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase its Notes as a result of a sale of less than all our assets to another person may be uncertain. Finally, our future debt also may contain restrictions on repayment requirements with respect to specified events or transactions that constitute a change of control under the Indenture.

If the Notes are rated investment grade by both Standard & Poor's and Moody's, certain covenants contained in the Indenture will be suspended, and holders of the Notes will lose the protection of these covenants unless and until the Notes subsequently fall back below investment grade.

The Indenture contains certain covenants that will be suspended for so long as the Notes are rated investment grade by both Standard & Poor's Ratings Services and Moody's Investors Service, Inc. These covenants restrict HNA Ecotech's and its restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue preferred stock;
- make distributions or other restricted payments;
- sell capital stock or other assets;
- engage in transaction with affiliates; and

- guarantee other indebtedness.

Because these restrictions will not apply when the Notes are rated investment grade, we will be able to incur additional debt and consummate transactions that may impair our ability to satisfy our obligations with respect to the Notes. In addition, we will not have to make certain offers to repurchase the Notes.

Your right to take enforcement action with respect to the liens securing the Notes is limited in certain circumstances, and you will receive the proceeds from such enforcement only after any “superpriority” obligations have been paid in full.

The Notes and indebtedness and other obligations under the Offshore Revolver, before it was repaid in full and terminated, are secured by first-priority liens on the same collateral. While the Offshore Revolver has been repaid in full and terminated, under the Indenture, we may replace such Offshore Revolver with one or more other facilities (each, a “**Replacement Facility**”), which may be secured by the same collateral as that securing the Notes. Under the terms of the security documents and/or intercreditor agreement, the proceeds of any collection, sale, disposition or other realization of collateral received in connection with the exercise of remedies (including distributions of cash, securities or other property on account of the value of the collateral in a bankruptcy, insolvency, reorganization or similar proceedings) will be applied first to repay “superpriority” obligations, including borrowings under the Replacement Facilities, if any, to the extent such borrowings are designated as “Priority Payment Lien Obligations” pursuant to the Indenture and the intercreditor agreement, and additional “superpriority” borrowings that we may incur in the future under the incremental facilities (including any post-petition interest with respect thereto), before the holders of Notes receive any proceeds. As a result, the claims of holders of Notes to such proceeds will effectively rank behind the claims, including interest, of holders of “superpriority” obligations under such facilities. If you (or the applicable trustee on your behalf) receive any proceeds as a result of an enforcement of security interests or the guarantees prior to the satisfaction of the claims of those that are superior or ratable with those of the Notes, you (or the trustee on your behalf) will be required to turn over such proceeds until superior claims are satisfied and until ratable claims are equally satisfied. Accordingly, you will recover less from the proceeds of an enforcement of interests in the collateral than you otherwise would have. As a result of these and other provisions governing the guarantees and the collateral and in the security documents, you may not be able to recover any amounts under the guarantees or the collateral in the event of a default on the Notes.

The terms of the security documents and/or intercreditor agreement contain provisions restricting the rights of holders of Notes to take enforcement action with respect to the liens securing such Notes in certain circumstances. These provisions generally provide that the trustee for the Notes and the agent for the lenders under the Replacement Facilities, if any, to the extent such borrowings are designated as “Priority Payment Lien Obligations” pursuant to the Indenture and the intercreditor agreement, and/or holders of indebtedness incurred under the incremental facilities and designated as “Priority Payment Lien Obligations” pursuant to the Indenture and the intercreditor agreement must generally engage in certain consultative processes before enforcing the liens securing the Notes. Conflicts of interest and disagreements could arise between the holders of Notes, or between the trustee acting on behalf of the holders of Notes, and the agent for the lenders under and/or holders of the facilities which have a “superpriority” ranking. For example, in an enforcement proceeding, lenders under and/or holders of “superpriority” secured indebtedness may likely be more concerned with quickly recovering amounts sufficient to repay such indebtedness than with maximizing the recovery of claims of other holders of first priority liens on the same collateral, including those of holders of Notes. Such conflicts of interest and disagreements could limit or delay the ability of the holders of Notes to enforce their liens. Delays in the enforcement could decrease or eliminate recovery values. In addition, because the obligations to the lenders under and/or holders of “superpriority” secured indebtedness arise under different agreements and contractual arrangements than the obligations to the holders of the Notes, it is possible that holders of such “superpriority” indebtedness would be placed in a separate class from other holders of secured indebtedness,

including holders of Notes, in a bankruptcy, insolvency, reorganization or similar proceeding. Such separate classification may occur even though the security documents and intercreditor agreement will not provide an independent or senior lien to the holders of such “superpriority” indebtedness relative to that of holders of Notes. Other factors, such as the valuation of the collateral securing our secured indebtedness, may also bear on the determination of whether such separate classification will occur. Such separate class treatment of holders of “superpriority” indebtedness could adversely impact the recovery of holders of Notes in any such proceeding.

Finally, the holders of Notes will not have any independent power to enforce, or have recourse to, any of the security documents or to exercise any rights or powers arising under the security documents except through the collateral agent. By accepting a note, you will be deemed to have agreed to these restrictions. As a result of these restrictions, holders of Notes will have limited remedies and recourse against us and the guarantors in the event of a default.

The imposition of certain permitted liens could materially and adversely affect the value of the collateral securing the Notes.

The collateral securing the Notes are also subject to liens permitted under the terms of the Indenture, whether arising on or after the date the Notes were issued. The existence of any permitted liens could materially adversely affect the value of the collateral that could be realized by the holders of the Notes as well as the ability of the collateral agent to realize or foreclose on such collateral. The collateral securing the Notes may also secure future indebtedness and other obligations of ours on a superior or *pari passu* basis to the extent permitted by the Indenture and the security documents and as a result your rights to the collateral would be diluted by any increase in the indebtedness secured on a superior or *pari passu* basis by the collateral securing the Notes. See “— Your right to take enforcement action with respect to the liens securing the Notes is limited in certain circumstances, and you will receive the proceeds from such enforcement only after any “superpriority” obligations have been paid in full.”

State law may limit the ability of the collateral agent on behalf of the holders of the Notes to foreclose on the real property and improvements included in the collateral.

The Notes are secured by, among other things, liens on real property and improvements located in various states in which the collateral real properties are located. The laws of those states may limit the ability of the collateral agent on behalf of the holders of the Notes to foreclose on the improved real property collateral located in those states. Laws of those states govern the perfection, enforceability and foreclosure of mortgage liens against real property interests which secure debt obligations such as the Notes. These laws may impose procedural requirements for foreclosure different from and necessitating a longer time period for completion than the requirements for foreclosure of security interests in personal property. Debtors may have the right to reinstate defaulted debt (even if it has been accelerated) before the foreclosure date by paying the past due amounts and a right of redemption after foreclosure. Governing laws may also impose security first and one form of action rules, which rules can affect the ability to foreclose or the timing of foreclosure on real and personal property collateral regardless of the location of the collateral and may limit the right to recover a deficiency following a foreclosure.

You also may be limited in your ability to enforce the “no liens” and “no transfer or assignments” covenants. Some decisions in state courts have placed limits on a lender’s ability to prohibit and to accelerate the debt secured by real property upon breach of covenants prohibiting sales or assignments or the creation of certain junior liens, and the lender may need to demonstrate that enforcement of such covenants is reasonably necessary to protect against impairment of the lender’s security or to protect against an increased risk of default. Although the foregoing may have been preempted by certain federal laws, the scope of such preemption is uncertain.

Holders of the Notes may not be able to fully realize the value of their liens.

The security interests and liens for the benefit of holders of the Notes may be released without such holders' consent in specified circumstances. In particular, the security documents governing the Notes generally provide for an automatic release of all liens on any asset securing the Notes that is disposed of in compliance with the provisions of the Indenture. As a result, we cannot assure holders of the Notes that the Notes will continue to be secured by a substantial portion of our assets.

Moreover, the collateral agent may need to evaluate the impact of potential liabilities before determining to foreclose on collateral consisting of real property because secured creditors that hold a security interest in real property may be held liable under environmental laws for the costs of remediating or preventing the release or threatened release of hazardous substances at such real property. Consequently, the collateral agent may decline to foreclose on such collateral or exercise remedies available in respect thereof if it does not receive indemnification to its satisfaction from the holders of the Notes.

In addition, all or a portion of the collateral may be released:

- to enable the sale, transfer or other disposal of such collateral in a transaction not prohibited under the Indenture, including the sale of assets in accordance with the asset sale covenant in the Indenture and the sale of any entity in its entirety that owns or holds such collateral; and
- with respect to collateral held by a guarantor, upon the release of such guarantor from its guarantee.

In addition, the guarantee of a subsidiary guarantor will be released in connection with a sale of such subsidiary guarantor in a transaction not prohibited by the Indenture or upon certain other events.

The Indenture also permits us to designate one or more of our restricted subsidiaries that is a guarantor of the Notes as an unrestricted subsidiary. If we designate a subsidiary guarantor as an unrestricted subsidiary, all of the liens on any collateral owned by such subsidiary or any of its subsidiaries and any guarantees of the Notes by such subsidiary or any of its subsidiaries will be released under the Indenture. Designation of a subsidiary as unrestricted will reduce the aggregate value of the collateral securing the Notes to the extent that liens on the assets of the unrestricted subsidiary and its subsidiaries are released. In addition, the creditors of the unrestricted subsidiary and its subsidiaries will have a senior claim on the assets of such unrestricted subsidiary and its subsidiaries.

The collateral may not be valuable enough to satisfy all the obligations secured by such collateral.

The Notes are secured on a first-priority lien basis (subject to certain exceptions and permitted liens) by substantially all of the assets of our and the guarantors' assets, including all of the capital stock of HNA Ecotech and each material wholly-owned restricted subsidiary. The actual value of the collateral at any time will depend upon market and other economic conditions. As of December 31, 2016, the book value of our total assets was approximately \$797.6 million.

In addition, under the terms of the security documents and/or intercreditor agreement, the proceeds of any collection or other realization of collateral received in connection with the exercise of remedies will be applied first to repay "superpriority" obligations before the holders of the Notes receive such proceeds. See "— Your right to take enforcement action with respect to the liens securing the Notes is limited in certain circumstances, and you will receive the proceeds from such enforcement only after any "superpriority" obligations have been paid in full."

Moreover, the asset sale covenant and the definition of asset sale in the Indenture have a number of significant exceptions pursuant to which we will be able to sell collateral securing the Notes without being required to reinvest the proceeds of such sale into assets that will comprise collateral or to make an offer to the holders of the Notes to repurchase such Notes.

The value of the pledged assets in the event of a liquidation will depend upon market and economic conditions, the availability of buyers and similar factors. No independent appraisals of any of the pledged property had been prepared by or on behalf of us in connection with the offering of the Notes. Accordingly, we cannot assure holders of the Notes that the proceeds of any sale of the pledged assets following an acceleration to maturity with respect to the Notes would be sufficient to satisfy, or would not be substantially less than, amounts due on the Notes and the other debt secured thereby. If the proceeds of any sale of the pledged assets were not sufficient to repay all amounts due on the Notes, the holders of the Notes (to the extent their Notes were not repaid from the proceeds of the sale of the pledged assets) would have only an unsecured claim against our remaining assets. By their nature, some or all of the pledged assets may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure holders of the Notes that the pledged assets will be saleable or, if saleable, that there will not be substantial delays in their liquidation. To the extent that liens, rights and easements granted to third parties encumber assets located on property owned by us or constitute subordinate liens on the pledged assets, those third parties may have or may exercise rights and remedies with respect to the property subject to such encumbrances (including rights to require marshalling of assets) that could adversely affect the value of the pledged assets located at that site and the ability of the collateral agent to realize or foreclose on the pledged assets at that site.

In addition, the Indenture permits us to issue additional secured debt, including debt secured equally and ratably by the same assets pledged for the benefit of the holders of the Notes. This could reduce amounts payable to holders of the Notes from the proceeds of any sale of the collateral.

The value of the collateral securing the Notes may not be sufficient to secure post-petition interest.

In the event of a bankruptcy, liquidation, dissolution, reorganization or similar proceeding against us, holders of the Notes will only be entitled to post-petition interest under the Bankruptcy Code to the extent that the value of their security interest in the collateral is greater than their pre-bankruptcy claim. Holders of the Notes that have a security interest in collateral with a value equal or less than their pre-bankruptcy claim will not be entitled to post-petition interest under the Bankruptcy Code. No appraisal of the fair market value of the collateral had been prepared in connection with the offering of the Notes and we therefore cannot assure you that the value of the noteholders' interest in the collateral equals or exceeds the principal amount of the Notes. See "— The collateral may not be valuable enough to satisfy all the obligations secured by such collateral."

Certain significant assets were excluded from the collateral.

Certain of our assets were excluded from the collateral securing the Notes, including, among other things, any assets held by unrestricted subsidiaries, any assets in real property (including leaseholds) other than fee interests having a value in excess of certain amounts, as well as other exclusions. The value of this excluded collateral is significant and in certain circumstances may be pledged to other creditors. Additionally, we are not required to create or perfect liens in assets where we reasonably determine that such creation or perfection would be considered excessive in view of the benefits obtained therefrom by the holders of the Notes (including material adverse tax consequences).

We will in most cases have control over the collateral, and the sale of particular assets by us could reduce the pool of assets securing the Notes and the guarantees.

The collateral documents allow us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from, the collateral securing the Notes

and the guarantees. In addition, we will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act of 1939, as amended (the “Trust Indenture Act”) if we determine, in good faith based on advice of counsel, that, under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including “no action” letters or exemptive orders, all or such portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released collateral. For example, so long as no default or event of default under the Indenture would result therefrom and such transaction would not violate the Trust Indenture Act, we may, among other things, without any release or consent by the trustee, conduct ordinary course activities with respect to collateral, such as selling, factoring, abandoning or otherwise disposing of collateral and making ordinary course cash payments (including repayments of indebtedness). With respect to such releases, we must deliver to the collateral agent, from time to time, an officers’ certificate to the effect that all releases and withdrawals during the preceding six-month period in which no release or consent of the collateral agent was obtained in the ordinary course of our business were not prohibited by the Indenture.

Bankruptcy laws may limit the ability of holders of the Notes to realize value from the collateral.

The right of the collateral agent to repossess and dispose of the pledged assets upon the occurrence of an event of default under the Indenture is likely to be significantly impaired by applicable bankruptcy law if a bankruptcy case were to be commenced by or against us before the collateral agent repossessed and disposed of the pledged assets. For example, under the Bankruptcy Code, pursuant to the automatic stay imposed upon the bankruptcy filing, a secured creditor is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such debtor or creating, perfecting or enforcing any lien against a debtor, or taking other actions to levy against a debtor, without bankruptcy court approval. Moreover, the Bankruptcy Code permits the debtor to continue to retain and to use collateral (including cash collateral) and to provide liens senior to the lien of the collateral agent in respect of the Notes to secure indebtedness incurred after the commencement of a bankruptcy case even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given “adequate protection.” The meaning of the term “adequate protection” may vary according to circumstances (and is within the discretion of the bankruptcy court), but it is intended in general to protect the value of the secured creditor’s interest in the collateral and may include cash payments or the granting of additional security, if and at such times as the court in its discretion determines, for any diminution in the value of the collateral as a result of the automatic stay of repossession or disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case. Generally, adequate protection payments, in the form of interest or otherwise, are not required to be paid by a debtor to a secured creditor unless the bankruptcy court determines that the value of the secured creditor’s interest in the collateral is declining during the pendency of the bankruptcy case. In addition, the bankruptcy court may determine not to provide cash payments as adequate protection to the holders of the Notes if, among other possible reasons, the bankruptcy court determines that the fair market value of the collateral with respect to the Notes on the date of the bankruptcy filing was less than the then-current principal amount of the Notes. Furthermore, due to the imposition of the automatic stay, the lack of a precise definition of the term “adequate protection” and the broad discretionary powers of a bankruptcy court, it is impossible to predict (1) how long payments under the Notes could be delayed following commencement of a bankruptcy case, (2) whether or when the collateral agent could repossess or dispose of the pledged assets or (3) whether or to what extent holders of the Notes would be compensated for any delay in payment or loss of value of the pledged assets through the requirement of “adequate protection.”

The collateral is subject to casualty risks.

We maintain certain insurance over some of our assets, including some of the pledged assets, in a manner generally consistent with the industry practice. There are, however, some losses, including losses resulting from terrorist acts, which may be either uninsurable or not economically insurable, in whole or in part. As a result, we cannot assure holders of the Notes that the insurance

proceeds will compensate us fully for our losses. If there is a total or partial loss of any of the pledged assets, we cannot assure holders of the Notes that the proceeds received by us in respect thereof will be sufficient to satisfy all the secured obligations, including the Notes.

In the event of a total or partial loss to any of the mortgaged properties, certain items of equipment and inventory may not be easily replaced. Accordingly, even though there may be insurance coverage, the extended period needed to manufacture replacement units or inventory could cause significant delays.

Rights of holders of the Notes in the collateral may be adversely affected by the failure to perfect security interests in the collateral.

Applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens in the collateral securing the Notes may not be perfected with respect to the claims of the Notes if the collateral agent is not able to take the actions necessary to perfect any of these liens on or prior to the original issue date of the Notes.

Under the terms of the security documents, where perfection of security interests over an asset is disproportionately onerous (in consideration of custom and practice of the jurisdiction of the relevant grantor or asset and other factors), we will not be obligated to perfect the security taken over that asset.

Certain guarantors have significant receivables. Although we have pledged and expect to pledge the receivables of such guarantors as security for the Notes, we are not obligated to perfect such security interest to the extent that applicable laws require perfection by notice to be served on the account debtors of those receivables. Instead, we have granted and expect to grant security interests over the material bank accounts of guarantors located in certain material jurisdictions to which the payments for such receivables will be deposited to the extent that applicable laws permit the granting of a floating charge security interest (or equivalent) in such bank accounts without the consent or cooperation of the account bank. The terms of the security documents relating to such security interests over bank accounts typically allow the relevant guarantor to freely operate the account unless and until an event of default occurs as a result of a bankruptcy or insolvency event. In addition, the security documents typically specify that the security in such bank accounts only becomes enforceable in case of an occurrence of an event of default as a result of a bankruptcy or insolvency event. As such, we do not expect that the holders of the Notes will have (1) the benefit of fully perfected security interests in the receivables of certain guarantors nor (2) the right to control any bank accounts of the guarantors provided as collateral or to enforce the security interest in such bank accounts except in connection with an event of default arising out of a bankruptcy or insolvency event. Further, if the security is enforced while the relevant guarantor is subject to a statutory winding-up or liquidation procedure, there may be delays in receiving or realizing the proceeds of the enforcement while that procedure is completed.

In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate of title and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. We and the guarantors have limited obligations to perfect the security interest of the holders of the Notes in specified collateral. There can be no assurance that the trustee or the collateral agent for the Notes will monitor, or that we will inform such trustee or collateral agent of, the future acquisition of property and rights that constitute collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired collateral. Neither the trustee nor the collateral agent for the Notes has an obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest. Such failure may result in the loss of the security interest in the collateral or the priority of the security interest in favor of the Notes against third parties.

If we or any guarantor were to become subject to a bankruptcy proceeding, any liens recorded or perfected or any mortgages delivered after the original issue date of the Notes would face a greater risk of being invalidated than if they had been recorded, perfected or delivered on the original issue date of the Notes. Liens recorded or perfected or any mortgages delivered after the original issue date may be treated under bankruptcy law as if they were delivered to secure previously existing indebtedness. In bankruptcy proceedings commenced within 90 days of lien perfection or mortgage delivery, a lien or mortgage given to secure previously existing debt is significantly more likely to be avoided as a preference by the bankruptcy court than if delivered and promptly recorded on the original issue date. Accordingly, if we or a guarantor were to file for bankruptcy protection after the original issue date and the liens had been perfected or the mortgages had been delivered less than 90 days before commencement of such bankruptcy proceeding, or not yet perfected or delivered at all, the liens or mortgages securing the Notes may be especially subject to challenge as a result of having not been perfected or delivered before the original issue date. To the extent that such challenge succeeded, you would lose the benefit of the security that the collateral was intended to provide.

Pledges of equity interests in our non-U.S. subsidiaries may not be enforceable under the laws of the jurisdictions where such subsidiaries are organized.

Part of the security for the repayment of the Notes consists of a pledge of the capital stock of or equity interests in certain non-U.S. subsidiaries. Although such pledges are granted under security documents governed by U.S. law, some foreign jurisdictions may not recognize such security interests as enforceable. Consequently, the collateral agent may be unable to exercise remedies against the equity interests in non-U.S. subsidiaries.

In the event of a bankruptcy of us or any of the guarantors, holders of the Notes may be deemed to have an unsecured claim to the extent that our obligations in respect of such Notes exceed the fair market value of the collateral securing such Notes.

In any bankruptcy proceeding with respect to us or any of the guarantors, it is possible that the bankruptcy trustee, the debtor-in-possession or competing creditors will assert that the fair market value of the collateral with respect to the Notes on the date of the bankruptcy filing was less than the then-current principal amount of the Notes. Upon a finding by the bankruptcy court that the Notes are under-collateralized, the claims in the bankruptcy proceeding with respect to the Notes would be bifurcated between a secured claim and an unsecured claim, and the unsecured claim would not be entitled to the benefits of security in the collateral. Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of the Notes to receive post-petition interest and a lack of entitlement on the part of the unsecured portion of the Notes to receive other “adequate protection” under federal bankruptcy laws. In addition, if any payments of post-petition interest had been made at the time of such a finding of under-collateralization, those payments could be re-characterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the Notes.

Because HNA Ecotech and Parent and certain restricted subsidiaries and guarantors are incorporated under the laws of the Cayman Islands, you may face difficulties in protecting your interests, and your ability to protect your rights through the United States federal courts may be limited.

Parent, HNA Ecotech and certain restricted subsidiaries and guarantors are exempted companies incorporated with limited liability under the laws of the Cayman Islands, and substantially all of their assets are located outside the United States. In addition, most of Parent’s, HNA Ecotech’s and such restricted subsidiaries’ and guarantors’ directors and executive officers are nationals or residents of jurisdictions other than the United States and all or a substantial portion of their assets may be located outside the United States. As a result, it may be difficult for holders of the Notes to effect service of process within the United States upon us or these non-U.S. directors or executive

officers, or enforce judgments obtained in the United States courts against us or these non-U.S. directors or executive officers.

There is uncertainty as to whether the courts of the Cayman Islands would (i) recognize or enforce judgments of the courts of the United States obtained against us or our directors or officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States; or (ii) entertain original actions brought in the courts of the Cayman Islands against us or our directors and officers predicated upon the civil liability provisions of the federal securities laws of the United States or any state or territory within the United States.

The courts of the Cayman Islands would likely follow common law principles and recognize as a valid judgment a final and conclusive judgment in personam obtained in the federal or state courts in the United States under which a sum of money is payable (other than a sum of money payable in respect of multiple damages, taxes or other charges of a like nature or in respect of a fine or other penalty) or, in certain circumstances, an in personam judgment for non-monetary relief, and would give a judgment based thereon, provided that (a) such courts had proper jurisdiction over the parties subject to such judgment (b) such courts did not contravene the rules of natural justice of the Cayman Islands, (c) such judgment was not obtained by fraud, (d) the enforcement of the judgment would not be contrary to the public policy of the Cayman Islands, (e) no new admissible evidence relevant to the action is submitted prior to the rendering of the judgment by the courts of the Cayman Islands, and (f) there is due compliance with the correct procedures under the laws of the Cayman Islands.

We are incorporated in the Cayman Islands because of certain benefits associated with being a Cayman Islands corporation, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of foreign exchange control or currency restrictions and the availability of professional and support services. However, the Cayman Islands have a less developed body of securities laws as compared to the United States and provide protections for investors to a significantly lesser extent.

The laws of other non-U.S. jurisdictions where we and certain of the guarantors are formed or organized will govern the corporate affairs of us and such guarantors, and such laws may affect the rights of holders of the Notes to take actions to protect their rights to enforce judgments, enforce such guarantees or their rights to certain of the collateral.

Cayman Islands insolvency law provides for three different procedural systems for winding up companies, namely (i) compulsory winding-up by order of the Grand Court of the Cayman Islands (the “Court”); (ii) voluntary winding-up and; (iii) voluntary winding-up subject to the supervision of the Court.

Each system requires the appointment of a liquidator, who assumes control of the management of the company and whose function it is to collect, realize and distribute the assets of the company to its creditors in accordance with the priority of payments provided for by statute, and thereafter to distribute any surplus among the company’s shareholders.

A petition to the Court for a winding-up order may be presented by the company itself or by a creditor or shareholder of the company. One way a winding-up order may be sought is by demonstrating to the Court that the company is unable to pay its debts. Cayman Islands law applies a cash flow test in this regard (i.e., it focuses on the company’s ability to pay its debts as opposed to assessing balance sheet solvency).

An automatic moratorium on proceedings against the company (or its assets) is imposed from the date of the commencement of the liquidation when a winding-up order is made by the Court or a voluntary winding-up is subject to Court supervision (i.e., in an official liquidation). During the moratorium, proceedings may not be commenced against the company (or its assets) without the

express permission of the Court. However, the moratorium does not prevent a secured creditor from realizing its security, nor does it affect any valid rights of set-off or subordination agreements acquired or entered into before the commencement of the official liquidation. Dispositions of property, transfers of shares and alterations in the status of shareholders effected after the presentation of the winding-up petition are void, unless sanctioned by the Court.

It is a fundamental rule of Cayman Islands insolvency law that all ordinary unsecured and unsubordinated creditors are treated equally irrespective of the nature of their claims. This is referred to as the *pari passu* rule. This rule applies to ordinary unsecured and unsubordinated creditors existing as at the date of the presentation of the winding-up petition or whose claims arise out of causes of action that accrued before the date of the presentation of the winding-up petition. Generally speaking a creditor having a validly created security interest over property of a company in liquidation is entitled to enforce his security without reference to the official liquidators and without the leave of the Court.

An official liquidator must be a qualified insolvency practitioner who meets independence, insurance and residence requirements (and as such a foreign receiver or liquidator may not act as the sole liquidator of a Cayman Islands company). A liquidator is an officer of the Court and has fiduciary duties to the company to act in good faith, for a proper purpose and for the benefit of the company at all times.

A voluntary liquidation is most commonly instituted by way of special resolution of the voting shareholders of the company. As with an official liquidator the function of the voluntary liquidator is to collect, realize and distribute the assets of the company to its shareholders, having first paid all of the company's unsecured creditors in full. If, within 28 days of the commencement of the voluntary liquidation, the directors of the company do not provide a declaration of solvency to the liquidator (which is then filed with the Registrar of Companies), the liquidator is obliged by law to apply to the Court for a supervision order. The practical effect of this is that, upon a supervision order being made, the voluntary liquidation proceeds as if it were an official liquidation in all respects.

This could lead to substantially increased costs of the liquidation since, among other things, the liquidator will be obliged to provide the Court with regular reports detailing the assets and liabilities of a company and all of the steps taken in the liquidation to date. A declaration of solvency takes into account the ability of a company to pay its debts within a period of 12 months of the declaration being made. Even if the directors do provide such a declaration, a voluntary liquidator may still apply to the Court for supervision in circumstances where he thinks that such an order will facilitate a more effective, economic or expeditious liquidation of the company in the interests of its creditors and shareholder.

In addition, the laws of other jurisdictions where our guarantors are incorporated, including Australia, the British Virgin Islands, Hong Kong, Japan and Singapore, may make it difficult for investors to enforce judgments obtained in United States courts, including judgments predicated upon civil liability provisions of the securities laws of the United States or any state thereof. These jurisdictions also have different bodies of insolvency and securities laws from the United States and the protections for investors may differ.

If payments with respect to the Notes are reduced by withholding pursuant to the Foreign Account Tax Compliance Act, holders will not be compensated for the withheld amounts.

Pursuant to the Foreign Account Tax Compliance Act ("FATCA"), U.S. source payments (or payments attributable to U.S. source income) made to a non-U.S. entity could be subject to a 30% U.S. withholding tax unless the non-U.S. entity receiving such payments complies with various U.S. information reporting and/or due diligence requirements (generally relating to ownership by U.S. persons of interests in or accounts with such entity) or otherwise qualifies for an exemption.

Based on current guidance and our current operations, it is expected that payments made with respect to the Notes generally will not be subject to FATCA withholding. However, the scope of these rules remains unclear and potentially subject to material changes. In the event any withholding under FATCA is required or advisable with respect to any payments with respect to the Notes, neither us nor the guarantors would be required to pay additional amounts to compensate for such withholding.

FATCA is particularly complex and its application is uncertain at this time. All holders should consult their own tax advisors on how these rules may apply to their investment in the Notes.

There are restrictions on transfers of the Notes.

We relied upon exemptions from registration under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and applicable state securities laws in the offering of the Notes. As a result, the Notes may be transferred or resold only in transactions registered under, or exempt from, the Securities Act and applicable state securities laws.

An active trading market may not be maintained for the Notes.

We cannot assure you that an active trading market will be maintained for the Notes. Although the Notes have been listed on the Singapore exchange, any market making may be discontinued at any time without notice.

The liquidity of, and trading market for, the Notes may be adversely affected by, among other things:

- changes in the overall market for securities similar to the Notes;
- changes in our financial performance or prospects;
- the prospects for companies in our industry generally;
- the number of holders of the Notes;
- the interest of securities dealers in making a market for the Notes; and
- prevailing interest rates.

We offered these Notes in reliance upon an exemption from registration under the Securities Act and applicable state securities laws. Therefore, the Notes may be transferred or resold only in a transaction registered under or exempt from the Securities Act and applicable state securities laws. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities that are similar to the Notes. We cannot assure you that the market, if any, for any of the Notes will be free from similar disruptions or that any such disruptions may not adversely affect the prices at which you may sell your Notes. In addition, the Notes may trade at a discount from their initial issuance price depending upon prevailing interest rates, the market for similar notes, our performance, and other factors. Please also see “—The consummation of the Change of Control Offer and any further purchase by us and/or our affiliates of our outstanding debt securities may reduce the trading liquidity of such securities.”

A lowering or withdrawal of the ratings assigned to our debt securities by rating agencies may adversely affect the market price or liquidity of the Notes.

There can be no assurances that any rating assigned to our debt securities by rating agencies will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in that rating agency’s judgment, future circumstances relating to the basis of the

rating, such as adverse changes, so warrant. Credit ratings are not recommendations to purchase, hold or sell the Notes, and may be revised or withdrawn at any time. Additionally, credit ratings may not reflect the potential effect of risks relating to the structure or marketing of the Notes. If any credit rating initially assigned to the Notes is subsequently lowered or withdrawn for any reason, you may not be able to resell your Notes without a substantial discount.

We are indirectly owned and controlled by HNA and HNA's interests as an equity holder may conflict with yours as a creditor.

As of the date of this annual report, HNA indirectly owns 100% of the outstanding equity interest of the Parent and, therefore, has the ability to control our policies. HNA does not have any liability for any obligations under the Notes, and the interests of HNA as equity holders may not in all cases be aligned with yours. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of our equity holders might conflict with the interests of our creditors. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to our lenders and noteholders. Furthermore, HNA may in the future own businesses that directly or indirectly compete with us. HNA also may pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us.

Properties

Our principal offices are located on premises comprising approximately 3,571 square meters in an office building in Zhongguancun Dongsheng Science and Technology Park, Beijing, China. We have leased all of our leased facilities from unrelated parties, and most of our leases are renewable at our option.

Our other offices and delivery centers in China are located in leased offices in Beijing, Changsha, Chengdu, Dalian, Dongguan, Guangzhou, Hangzhou, Jinan, Nanjing, Nanning, Qingdao, Shanghai, Shenzhen, Tianjin, Wuhan, Wuxi, Xi'an and Xiamen occupying a total of 77,730 square meters. We also have leased offices in Australia, Europe, Hong Kong, Japan, Malaysia, Singapore, Taiwan, and the United States that occupy a total of 17,108 square meters. We believe that we can obtain additional space for offices and delivery centers on reasonable terms to meet our future requirements.

The following table describes each of the leases for our headquarters, delivery centers, sales and service office and international offices as of the date hereof:

Location	Space (in square meters)	Usage of Property
<i>China:</i>		
Beijing	9,487	Headquarter, Delivery Center
Changsha	776	Sales Office & Delivery Center
Chengdu	3,079	Delivery Center
Dalian	22,474	General Administration/Delivery Center
Dongguan	11,500	Delivery Center
Guangzhou	1,650	Delivery Center
Hangzhou	3,418	Delivery Center
Jinan	151	Delivery Center
Nanjing	1,626	Delivery Center
Nanning.....	59	Sales Office
Qingdao	100	Delivery Center
Shanghai	7,920	Delivery Center
Shenzhen	9,943	Delivery Center
Tianjin	34	Sales Office
Wuhan	897	Sales Office
Wuxi	2,950	Delivery Center
Xi'an	1,134	Sales Office
Xiamen	532	Sales Office
Total	77,730	
Hong Kong	451	International Office
Taiwan	16	International Office
<i>Japan:</i>		
Tokyo	216	International Office & Delivery Center
Osaka	220	International Office
Total	436	
<i>United States:</i>		
Charlotte	604	International Office

Santa Clara	178	International Office
Redmond	4,763	International Office & Delivery Center
New York.....	929	International Office
Total	6,474	
<i>Europe</i>		
Spain	480	International Office & Delivery Center
Switzerland	294	International Office & Delivery Center
Hungary	641	Delivery Center
Total	1,415	
Australia	1,339	International Office & Delivery Center
Malaysia	911	International Office
Singapore	6,066	International Office & Delivery Center
Grand Total	94,838	

* The sum of space under multiple leases.

In November 2009, one of our subsidiaries entered into agreements with a Beijing-based developer regarding proposed acquisition of the use right to two parcels of land with an area of appropriately 21,700 square meters in Zhongguancun Software Park, Haidian District, Beijing. In July 2011, such subsidiary entered into a land use right grant agreement with the Beijing Municipal Bureau of Land and Resources pursuant to which it acquired land use right with a 50-year term. The purchase price of approximately \$24.1 million, relating to the land use right as of December 31, 2011 has been fully paid. In 2014, we obtained the land use right certificate and real estate title certificates for the buildings constructed on these two parcels of land and moved our delivery center and research and development center in Beijing to the new office premises built on these parcels of land.

In December 2013, one of our subsidiaries purchased three buildings from a third company by tender process with an aggregated gross floor area of approximately 21,225 square meters in Wuxi. As of the date of this annual report, we have paid up the purchase prices for these buildings and obtained the real estate title certificates to these buildings.

Legal Proceedings

As of December 31, 2016, except as otherwise disclosed herein, we are not involved in any litigation or other legal or administrative proceedings that would have a material adverse effect on our business operations.

On October 5, 2012, the plaintiffs filed an action in the Superior Court of California, County of San Francisco against us and certain of our executive officers. The plaintiffs founded Echo Lane and became our employees after Echo Lane was acquired by us in 2010. The plaintiffs alleged that we were liable to them for breach of contract and for fraud relating to the acquisition of Echo Lane. On November 9, 2012, this case was removed to the United States District Court for the Northern District of California. On February 15, 2013, the court issued an order requiring the plaintiffs to submit their claims to arbitration. On March 26, 2013, the plaintiffs filed an arbitration claim seeking an award of general and special damages, plus punitive damages, prejudgment interest, attorneys' fees and costs. This case was arbitrated in July 2015, and on September 21, 2015, the arbitrator issued a preliminary order dismissing all claims by the plaintiffs with prejudice and included an award to us of approximately \$1.8 million in attorneys' fees and costs, monetary sanctions, and other expenses related to the arbitration. On October 23, 2015, the arbitrator issued the final award, which was consistent with the afore-mentioned preliminary order. On November 2, 2015, the plaintiffs filed a motion to correct the arbitrator's final award, arguing that the arbitrator inappropriately apportioned the arbitrator's fees to them and allegedly failed to address an issue. We objected to the plaintiffs' motion on November 16, 2015. On November 30, 2015, the arbitrator issued a disposition of application, denying the plaintiffs' motion to correct the final award. On January 8, 2016, the plaintiffs and we filed separate motions before the United States District Court for the Northern District of California to vacate and confirm the arbitration award, respectively. On February 19, 2016, the judge granted our motion to confirm the arbitration award and denied the plaintiffs' motion to vacate the arbitration award. On March 2, 2016, we further filed a motion to clarify the court's order to include the precise amount of the final award, and name the plaintiffs' attorney as jointly and severally liable for a portion of the final award and additional costs incurred therein. On March 29, 2016, we entered into a settlement agreement with the plaintiffs. On January 12, 2017, we entered into a settlement agreement with plaintiffs' attorney, Ted C. Lindquist, III.

Selected Financial Data

The selected historical consolidated statements of income data for the year ended December 31, 2014 are combined results of the consolidated statement of operations of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of operations of the Successor for the nine months ended December 31, 2014. The selected historical consolidated statements of cash flow data for the year ended December 31, 2014 are combined results of the statements of cash flow of the Predecessor for the three months ended March 31, 2014 and the statements of cash flow of the Successor for the nine months ended December 31, 2014. The selected historical consolidated statements of income data and statements of cash flow data for the year ended December 31, 2015 and 2016, and the selected balance sheet data as of December 31, 2015 and 2016 have been derived from our historical audited consolidated financial statements included elsewhere in this annual report. The selected historical consolidated statements of income data and statements of cash flow data for the years ended December 31, 2012 and 2013 are incorporated herein by reference to the information included in the section entitled “Selected Historical Consolidated Financial Information” in the offering memorandum dated March 20, 2014 and have been derived from Pactera’s financial statements not included in this annual report. The results of operations of VanceInfo have been included in Pactera’s consolidated statements of operations and cash flow statement beginning November 9, 2012. Historical results are not necessarily indicative of the results to be expected for future periods.

	For the Year Ended December 31,		
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(dollars in thousands)		
Statements of Operations Data:			
Net revenues	712,555	777,306	806,061
Cost of revenues	(510,580)	(578,171)	(611,772)
Gross profit	201,975	199,135	194,289
Operating Expenses:			
General and administrative expenses	(130,733)	(143,702)	(155,292)
Selling and marketing expenses	(43,428)	(47,778)	(47,394)
Change in fair value of contingent consideration	(1,061)	1,240	(698)
Total operating expenses	(175,222)	(190,240)	(203,384)
Income from operations	26,753	8,895	(9,095)
Interest expense	(17,556)	(23,938)	(30,856)
Other (expenses)/income	(1,309)	(894)	1,338
Income tax expense	(14,016)	(1,845)	(5,696)
Loss before earnings in equity method investment	(6,128)	(17,782)	(44,309)
Loss in equity method investment	(3)	(26)	(72)
Net loss	(6,131)	(17,808)	(44,381)

* Combined results of the consolidated statement of operations of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of operations of the Successor for the nine months ended December 31, 2014.

	As of December 31,	
	2015	2016
	(Successor)	(Successor)
	(dollars in thousands)	
Balance Sheet Data (at year end):		
Cash and cash equivalents	87,304	101,339
Term deposits.....	193	-
Accounts and notes receivable, net of allowance for doubtful accounts	284,722	287,972
Property, plants and equipment, net.....	89,811	77,822
Total assets.....	802,654	797,594
Total liabilities (including debt).....	486,852	518,136
Total shareholders' equity.....	315,802	279,458
Total operating working capital ⁽¹⁾	183,246	183,660

- (1) Total operating working capital includes net accounts receivables, advances to suppliers, prepaid rent and other prepaid expenses, deposits, advances from customers, accounts payable, employee compensation payables, subcontractor fees and other trade related payables.

	For the Year Ended December 31,		
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(unaudited)		
	(dollars in thousands)		
Other Financial Data:			
Purchase of property, plant and equipment (excluding purchase of buildings)	(10,115)	(8,990)	(9,596)
Purchase of buildings	(3,425)	-	(1,203)
Total capital expenditures	(13,540)	(8,990)	(10,799)
Net cash flows provided by operating activities ...	41,714	151	14,169
Net cash flows used in investing activities	(34,515)	(19,529)	4,659
Net cash flows used in financing activities	(38,691)	(6,244)	1,877
EBITDA ⁽¹⁾	47,594	29,359	16,146
Adjusted EBITDA ⁽¹⁾	79,961	43,107	52,318

- (1) To supplement Predecessor and Successor's consolidated financial results presented in accordance with US GAAP, we use EBITDA, adjusted EBITDA, adjusted EBITDA margin, and adjusted operating expenses (the "non-GAAP financial measures"), which exclude privatization-related expenses, share-based compensation, change in fair value of contingent consideration, compensation expenses related to acquisition, loss on disposal of Huawei Project, loss on disposals of property, plant and equipment, IT infrastructure development expenses, financial due diligence expenses incurred for the acquisition of Blue Fountain Media, lay-off expenses for certain senior management, consulting fee for cash flows management and retention bonus to certain senior management. The presentation of the non-GAAP financial measures is not intended to be considered in isolation or as a substitute for or superior to the financial information prepared and presented in accordance with US GAAP or as being comparable to results reported or forecasted by other companies.

We believe that the non-GAAP financial measures provide meaningful supplemental information regarding our performance by excluding certain expenses and expenditures that may not be indicative of our operating performance. We believe that both management and investors benefit from referring to the non-GAAP financial measures in assessing our performance and when planning and forecasting future periods.

* Combined results of the consolidated statement of cash flows of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of cash flows of the Successor for the nine months ended December 31, 2014.

The following table sets forth a reconciliation of net income to EBITDA and Adjusted EBITDA for the periods presented:

	For the Year Ended December 31,		
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(unaudited)		
	(dollars in thousands)		
Net loss	(6,131)	(17,808)	(44,381)
Income tax expense	14,016	1,845	5,696
Interest income, interest expense and change in fair value of foreign currency forward contract	17,415	24,145	31,290
Amortization (of intangible assets and land use right) ^(a)	9,501	8,955	12,303
Depreciation	12,793	12,222	11,238
EBITDA	47,594	29,359	16,146
Privatization-related expenses ^(b)	20,081	361	(1,960)
Share-based compensation	9,542	4,061	30,140
Change in fair value of contingent consideration ^(c)	1,061	(1,240)	698
Compensation expenses related to acquisition ^(d)	434	946	3,082
Loss on disposal of Huawei Project ^(e)	885	-	-
Loss on disposals of property, plant and equipment ^(f) ..	364	180	152
IT infrastructure development expenses ^(g)	-	3,127	2,310
Financial due diligence expenses incurred for the acquisition of Blue Fountain Media ^(h) ..	-	759	-
Lay-off expenses for certain senior management ⁽ⁱ⁾	-	3,018	1,750
Consulting fee for cash flows management ^(j)	-	389	-
Retention bonus to certain senior management ^(k)	-	2,147	-
Adjusted EBITDA	79,961	43,107	52,318
Adjusted EBITDA margin	11.2%	5.5%	6.5%

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

- (a) Reflects the amortization of intangible assets acquired in business acquisitions and the amortization of the land use right that is provided over the contractual terms of land-use right on a straight-line basis.
- (b) Reflects costs and expenses incurred in relation to the privatization process leading up to the 2014 Merger, including incremental share-based compensation for the modification on the Merger Date and various third party and legal fees. The reversal of \$2.0 million of privatization-related expenses for the year ended December 31, 2016 reflects professional legal fees and consulting fees that were accrued during 2014 and 2015 but were not actually paid from 2014 to 2016 and do not need to be paid in the future.
- (c) Reflects agreements to pay certain performance-based cash consideration in connection with various acquisitions including, primarily, NouvEON Technology Partners, Inc. (“NouvEON”), Echo Lane, Beijing GloryCube Technology Co., Ltd. (“Glory”), Bearing Point Holdings Pty. Limited (“Bearing Point”), Beijing Pactera Jinxin Software Limited (“Pactera Jinxin”), Pactera Technologies Australia Pty. Ltd. (“Pactera Australia”), Beijing Sunwin Technology Co., Ltd. (“Beijing Sunwin”), Pactera Financial Solutions Limited (“Pactera Financial

Solutions”), Pactera Technology AG (“Innoveo”), Shanghai Jinqiu Information Technology Co., Ltd. (“Jinqiu”) and Blue Fountain Media, which were measured and recorded at estimated fair value at each acquisition date. Subsequently such fair values were re-measured in each reporting period until settlement.

- (d) Reflects compensation expenses paid to former shareholders of certain acquired companies in connection with our acquisitions of such companies.
- (e) Reflects loss incurred as a result of the disposal of the Huawei Project.
- (f) Reflects loss incurred as a result of assets disposal.
- (g) Reflects costs and expenses incurred in the process of the upgrading and development of the Company’s IT infrastructure.
- (h) Reflects expenses incurred for the acquisition of Blue Fountain Media.
- (i) Reflects expenses incurred for the lay-off expenses for certain senior management.
- (j) Reflects expenses incurred for consulting fee for cash flows management.
- (k) Reflects expenses incurred for retention bonus paid to certain senior management.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading global China-based IT services provider to top multinational and Chinese corporations. Our business is distinguished by our portfolio of blue-chip clients, a balanced geographic mix of revenues, an extensive Asia footprint, and leading positions in both the market for global offshoring of IT services into China and the Chinese domestic IT services outsourcing market. Our clients include 90 Fortune 500 companies, whom we serve throughout the world via our global sales and delivery footprint. We typically form long term relationships with our clients, for many of whom we are their sole or largest China-based IT services provider.

Our service offerings comprise (i) ITS, comprising 70.9% of our net revenues for the year ended December 31, 2016, which consist of ADM and CPS; (ii) RDS, comprising 26.4% of our net revenues for the year ended December 31, 2016, which consist of providing development, testing and localization services for software and hardware products developed by our clients; and (iii) BPO, comprising 2.7% of our net revenues for the year ended December 31, 2016.

Having been named as one of the leaders of 2016's best outsourcing service providers in The Global Outsourcing 100[®] ranking released by the IAOP[®], we have a unique ability to participate in two large, attractive and fast growing markets: (i) IT services offshoring into China and (ii) the domestic Chinese IT outsourcing services market.

- *Offshoring of IT services into China* — We have been serving international clients' global and Asia based operations from dedicated delivery centers in China since our founding in 1996. Clients headquartered outside of China contributed 48.3% of our net revenues for the year ended December 31, 2016.
- *Chinese domestic IT outsourcing services* — We have leveraged our expertise serving international clients to build a leading position in the Chinese domestic IT services outsourcing market. We focus on industries which we believe provide the most attractive opportunities, such as the BFSI industries. Clients headquartered in China accounted for 51.7% of our net revenues for the year ended December 31, 2016.

We have strong industry expertise in High Tech, BFSI, and manufacturing, with clients from these industries representing 50.4%, 33.5% and 14.1% of our net revenues for the year ended December 31, 2016, respectively. Our High Tech clients are primarily served by our RDS business, where we support them with development, testing and localization services to improve the performance of and shorten the time-to-market for their products. Our BFSI clients, which include some of the world's largest banks, are primarily served by our ITS business, where we provide both ADM and CPS services, with a focus on banking solutions. We support our manufacturing clients through a combination of ITS and RDS services, addressing their internal IT infrastructure needs and supporting their product development.

Factors Affecting Our Results of Operations

We have benefited significantly from growth in the global outsourced technology services industry and, more specifically, the emergence of China as a major participant in this industry. Growth in the industry is driven by the needs of major corporations to maintain and upgrade the technology and services that enable their operations in a cost-effective manner. Software companies are also increasingly outsourcing work to service providers in order to streamline and reduce the cost of the software development process. China's outsourced technology services market is growing rapidly due to its large pool of skilled professionals, highly developed infrastructure, strong government support and incentives, the geographic and cultural proximity between China and other Asian countries, the desire of outsourcing clients to diversify their use of offshore IT outsourcing services to multiple delivery locations and the size and growth of China's domestic economy.

Key macro-level factors affecting our results of operations include:

- *Market demand.* Our net revenues are significantly affected by changes in demand for outsourced technology services by multinational corporations and software companies, especially demand for China-based outsourced technology service providers. For example, a decline in a client's technology budget may have an adverse effect on the amount and types of services they seek from us. With the gradual recovery from the last global economic crisis, we experienced a steady increase in demand for outsourced technology services in general that has led to an increase in our net revenues from the second half of 2009 to 2016.
- *Economic growth rates in our key client industries and locations.* Our net revenues are significantly affected by economic growth rates in the industries and countries in which our main clients operate, including the High Tech, the BFSI and manufacturing industries in Greater China, the United States, Japan and other parts of the world where our clients are based.
- *Competition.* Competition from China-based and non-China-based outsourced technology service providers may affect our ability to gain new clients and maintain and increase business from existing clients and, as a result, can have an adverse effect on our results of operations and financial condition.
- *Wage rates.* Our cost of revenues and operating expenses, and therefore gross margins and operating margins, may be affected by changes in wage rates in countries where we operate, particularly in China where most of our employees are based. As a result of the rapid economic growth in China and the increased competition for skilled employees in China, we have experienced a general increase in wages in China, both in more developed cities such as Beijing, Shanghai and Shenzhen and, to a lesser extent, in other cities such as Wuxi, Xi'an, Dalian and Chengdu. We believe wages in China will continue to increase in the future while wage inflation in other countries in which we operate will remain relatively stable.
- *Government policies.* Our results of operations may be affected by government policies and regulations, such as the Chinese government's policies on preferential tax treatment as well as any policies or regulations affecting demand for offshore outsourced technology services in our key client locations.
- *Relevant exchange rates.* Changes in exchange rates, especially relative changes in exchange rates against the Renminbi, in which most of our costs are denominated, and the U.S. dollar and Japanese yen, in which a large percentage of our revenues is denominated, may have a significant effect on our gross margins and operating margins.

Our results of operations in any given period are also directly affected by company-specific factors, including:

- *Our ability to obtain new clients and repeat business from existing clients.* Revenues from individual clients typically grow over time as we seek to increase the number and scope of services provided to each client and as clients increase the complexity and scope of the work outsourced to us. Therefore, our ability to obtain new clients, as well as our ability to maintain and increase business from our existing clients, will have a significant effect on our results of operations and financial condition.
- *Our ability to expand our portfolio of service offerings.* Our ability to grow revenue from new and existing clients is impacted by the breadth of our service offerings.

- *Impact of business acquisitions and combination.* We have entered into several business acquisitions in recent years and the MOE in November 2012. We plan to pursue selective business acquisitions in the future as a means of growing our business. Our ability to identify, acquire, effectively manage and integrate new businesses into our existing operations can have a significant effect on our results of operations.
- *Billing rates.* Our billing rates are a key factor impacting our revenues and gross margins. Billing rates vary by service offering and location of service delivery, and aggregate billings per engagement are driven by a number of factors, including the mix of international or Chinese domestic delivered services and the mix of experience levels of personnel on a particular project.
- *Proportion of services performed in internationally versus in China domestically.* Services performed internationally typically generate higher revenues but lower gross margins than services performed at our Chinese domestic delivery centers due to a higher cost base for international services. As a result, our gross margin fluctuates based on the relative proportion of work performed inside and outside China. The proportion of work performed internationally in the client's home country or in our Chinese domestic locations varies depending on client needs and the maturity or stage of engagement with a client.
- *Employee utilization.* We make hiring decisions and manage employee utilization based on our assessment of our project pipeline and staffing requirements. Employee utilization is typically higher for longer-term engagements due to increasing predictability of client needs over the course of the engagement. Our ability to effectively manage employee utilization will affect our efficiency on individual projects and resource allocation, and will ultimately impact our gross margin and our results of operations.

Net Revenues

Our net revenues represent our total revenues from operations, less business taxes. The following table sets forth our net revenues by type of service offering for the periods indicated:

For the Year Ended December 31,						
2014			2015		2016	
(*)			(Successor)		(Successor)	
	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues
(dollars in thousands, except for percentages)						
ITS	\$ 475,423	66.8%	\$ 526,863	67.8%	\$ 571,302	70.9%
CPS.....	186,449	26.2%	215,514	27.7%	224,229	27.8%
ADM.....	288,974	40.6%	311,349	40.1%	347,073	43.1%
RDS.....	221,603	31.1%	228,559	29.4%	212,685	26.4%
BPO.....	15,529	2.1%	21,884	2.8%	22,074	2.7%
Total net revenues...	\$ 712,555	100.0%	\$ 777,306	100.0%	\$ 806,061	100.0%

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

IT services have contributed the majority of our net revenues. In the past three years, our net revenues from IT services increased significantly in absolute terms as a result of the growth of our CPS and ADM services. The growth was largely due to a strong demand for our portfolio of high value-added services, including banking, finance and SAP solutions from customers in both China and the United States.

Our net revenues from RDS represented 31.1%, 29.4% and 26.4% of our total net revenues in 2014, 2015 and 2016, respectively. Our net revenues from RDS increased by 3.1% from \$221.6 million in 2014 to \$228.6 million in 2015, which was mainly driven by the rise in the number of multi-national corporations outsourcing research and development work to technology service providers based in China. Our net revenues from RDS decreased by 6.9% from \$228.6 million in 2015 to \$212.7 million in 2016, which was mainly due to the decreasing demand from our RDS clients.

Our net revenues from BPO services increased by 40.9% from \$15.5 million in 2014 to \$21.9 million in 2015 which was primarily driven by increasing demand from our BPO clients. Our net revenues from BPO services was \$22.1 million in 2016, remained relatively stable compared with that in 2015.

The following table sets forth our net revenues based on our clients' headquarters for the periods indicated:

For the Year Ended December 31,						
2014			2015		2016	
(*)			(Successor)		(Successor)	
Net	% of Total		Net	% of Total	Net	% of Total
Revenues	Net Revenues		Revenues	Net Revenues	Revenues	Net Revenues
(dollars in thousands, except for percentages)						
Greater China	\$ 282,440	39.7%	\$ 362,112	46.6%	\$ 416,612	51.7%
United States	280,759	39.4%	285,858	36.8%	265,431	32.9%
Japan	54,356	7.6%	51,637	6.6%	62,573	7.8%
Europe	56,551	7.9%	44,925	5.8%	35,695	4.4%
Asia South	38,449	5.4%	32,774	4.2%	25,750	3.2%
Total net revenues .	\$ 712,555	100.0%	\$ 777,306	100.0%	\$ 806,061	100.0%

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

Our net revenues derived from our clients headquartered in Greater China as a percentage of our total net revenues grew from 39.7% in 2014 to 46.6% in 2015, and further increased to 51.7% in 2016, primarily due to increasing demand in outsourced IT services in Greater China. We expect our net revenues from clients headquartered in Greater China to be relatively stable as a percentage of our total net revenues as we further expand our client base in Greater China.

Many of our clients are multinational corporations with local subsidiaries in jurisdictions outside of the jurisdiction of their headquarters, such as the United States and Japan. The following table sets forth our net revenues based on the location of our clients' contracting entities for the periods indicated:

For the Year Ended December 31,						
2014		2015		2016		
(*)		(Successor)		(Successor)		
Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	
(dollars in thousands, except for percentages)						
Greater China	\$ 452,546 63.5%	\$ 537,712 69.2%	\$ 558,468 69.3%			
United States	114,340 16.1%	102,582 13.2%	104,215 13.0%			
Asia South	79,329 11.1%	76,545 9.8%	66,307 8.2%			
Japan	53,927 7.6%	48,633 6.3%	65,687 8.1%			
Europe	12,413 1.7%	11,834 1.5%	11,384 1.4%			
Total net revenues .	\$ 712,555 100.0%	\$ 777,306 100.0%	\$ 806,061 100.0%			

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

The following table sets forth our net revenues by client industry for the periods indicated:

For the Year Ended December 31,						
2014		2015		2016		
(*)		(Successor)		(Successor)		
Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	
(dollars in thousands, except for percentages)						
High Tech	\$ 367,380 51.6%	\$ 396,026 51.0%	\$ 406,418 50.4%			
BFSI	230,838 32.4%	273,437 35.2%	269,909 33.5%			
Manufacturing	101,412 14.2%	93,610 12.0%	113,601 14.1%			
Others ⁽¹⁾	12,925 1.8%	14,233 1.8%	16,133 2.0%			
Total net revenues .	\$ 712,555 100.0%	\$ 777,306 100.0%	\$ 806,061 100.0%			

(1) Includes retail, distribution, travel and transportation and public services.

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

We are primarily focused on clients in the High Tech, BFSI and manufacturing industries. In 2015, our growth in net revenues from High Tech and BFSI industries was primarily driven by the increasing demand of our High Tech clients in China and our strengthened capabilities in BFSI solution offerings in China, respectively. In 2015, our decrease in net revenues from the Manufacturing industry was primarily due to the decreasing demand of our Manufacturing clients. In 2016, our growth in net revenues from High Tech and manufacturing industries was primarily driven by the increasing demand of our High Tech clients in China and the increase of our manufacturing clients in the United States, respectively. In 2016, our decrease in net revenues from BFSI industries was primarily due to the depreciation of RMB, partly offset by the increasing demand of our BFSI clients in China.

We aim to continue to strengthen our expertise in the High Tech, BFSI and manufacturing industries to leverage our existing industry knowledge to serve more clients within these industries and to penetrate additional sub-segments within these industries.

We typically enter into a master service agreement with our clients which provides a framework for services that is then supplemented by statements of work, which specify the particulars of individual

engagements, including the services to be performed, pricing terms and performance criteria. Our selling cycle for concluding master service agreements with new clients frequently exceeds six months. We usually then start providing a limited set of services to the client to demonstrate our capabilities, including, if required, gaining certification by that client as an approved outsourced services provider. We then gradually expand the scope and range of services provided to the client over a period of months or years. Based on our experience, it often takes one to three years working with a client before we develop a significant revenue stream, which we define as more than \$1.0 million per year in net revenues, from that client. Increased revenue from existing clients has been and is expected to continue to be an important driver of our revenue growth.

The following table shows the distribution of our clients by net revenues for the years ended December 31, 2014, 2015 and 2016:

	2014	2015	2016
	(*)	(Successor)	(Successor)
The number of clients			
> \$1 million, < \$5 million.....	88	81	106
> \$5 million, < \$10 million.....	16	20	16
> \$10 million.....	14	15	15

* Net revenues used to calculate such distribution of clients are from the combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

Most of our contracts are priced on a time-and-materials basis, with the remainder priced on a fixed-price basis. Net revenues from time-and-materials contracts accounted for 81.6%, 83.4% and 83.1% of our total net revenues in 2014, 2015 and 2016, respectively.

We derive our net revenues from a combination of international and Chinese domestic delivery. We categorize revenues from international work in the United States and Japan as “onshore revenues.” For the years ended December 31, 2014, 2015 and 2016, our onshore revenues accounted for 12.5%, 13.1% and 16.0% of our net revenues, respectively.

Cost of Revenues, Gross Profit and Gross Margin

The following table sets forth our total net revenues, cost of revenues, gross profit and gross margin for the periods indicated:

For the Year Ended December 31,

	For the Year Ended December 31,					
	2014		2015		2016	
	(*)		(Successor)		(Successor)	
	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues	Net Revenues	% of Total Net Revenues
	(dollars in thousands, except for percentages)					
Total net revenues.....	\$ 712,555	100.0%	\$ 777,306	100.0%	\$ 806,061	100.0%
Cost of revenues.	(510,580)	(71.7)%	(578,171)	(74.4)%	(611,772)	(75.9)%
Gross profit and gross margin	201,975	28.3%	199,135	25.6%	194,289	24.1%

* Combined results of the consolidated statement of operations of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of operations of the Successor for the nine months ended December 31, 2014.

Cost of Revenues

The principal components of our cost of revenues are salaries and other compensation expenses, including share-based compensation expenses, for employees directly responsible for the performance of client services. Salary and compensation expenses for senior management employees who are not directly responsible for the performance of client services, business development personnel and other personnel involved in support functions are included in operating expenses. Salaries and other compensation expenses of our professionals are allocated to cost of revenues regardless of whether they are actually performing services during a given period.

Wage levels for our professionals in China are generally lower than those in client locations such as the United States and Japan. Moreover, wage levels vary across different regions of China, with wage levels generally being higher in more developed cities such as Beijing, Shanghai and Shenzhen. As a result, our cost of revenues is significantly affected by the location from which we deliver services. We have begun to develop, and plan to continue developing, Chinese domestic delivery centers in cities with relatively lower wage levels, such as in Wuxi, Dalian and Xi'an, and have increased the proportion of our professionals in Chinese domestic delivery centers in cities with lower wage levels.

Other expenses included in cost of revenues include travel expenses, facilities and depreciation and overhead cost related to the delivery of services, as well as costs of technical subcontractors, computer and data communications equipment maintenance costs and amortization of intangible assets acquired in business acquisitions.

Gross Profit and Gross Margin

Our gross profit and gross margin are affected by factors which affect our net revenues, such as overall demand for outsourced technology services, and cost of revenues, such as wage levels. Changes in our gross profit and gross margin are also driven by factors such as, but are not limited to, our ability to efficiently implement the delivery process improvements to optimize the mix of services delivered internationally versus domestically in China and maintain the appropriate staffing levels, changes in pricing terms and variation in the duration, type, size, timing and scope of our engagements.

Our total net revenues from services provided domestically in China, which generate higher gross margin due to the lower cost base, represented 87.5% in 2014, 86.9% in 2015 and 84.0% of our total net revenues. Our efforts to develop Chinese domestic delivery centers, especially in cities with relatively lower wage levels, have allowed us to control the overall compensation expenses related to our

professionals. In addition, we have stringent cost control measures designed to align our staffing levels with the expected needs of our client projects, thereby improving the efficiency of our operations.

Our gross margin decreased from 28.3% in 2014 to 25.6% in 2015, partly due to, as compared to the year of 2014, (i) an increase in employee salary and welfare costs; (ii) the depreciation of Japanese Yen; and (iii) the adverse impact from the restructuring of one of our European clients resulting in decreased gross profit. Our gross margin decreased from 25.6% in 2015 to 24.1% in 2016, primarily due to, as compared to the year of 2015, (i) an increase in employee salary and welfare costs and (ii) the depreciation of RMB.

Operating Expenses

Our operating expenses principally consist of selling and marketing expenses and general and administrative expenses. The following sets forth our general and administrative expenses and selling and marketing expenses for the periods indicated:

For the Year Ended December 31,						
2014			2015		2016	
(**)			(Successor)		(Successor)	
% of			% of		% of Total	
Total Net			Total Net		Net	
Total	Revenues		Total	Revenues	Total	Revenues
(dollars in thousands, except for percentages)						
General and administrative expenses						
\$ 130,733	18.3%		\$ 143,702	18.5%	\$ 155,292	19.3%
Selling and marketing expenses						
43,428	6.1%		47,778	6.1%	47,394	5.9%
Change in fair value of contingent consideration						
1,061	0.1%		(1,240)	(0.2)%	698	0.1%

* Less than 0.1

** Combined results of the consolidated statement of operations of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of operations of the Successor for the nine months ended December 31, 2014.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and other compensation expenses of management and administrative staff, bad debt provision expense, utilities, legal and audit fees, ongoing information technology, telecommunications and other systems costs, and other administrative costs not related to the delivery of services.

Our general and administrative expenses increased from \$130.7 million in 2014 to \$143.7 million in 2015, primarily due to an increase of \$33.0 million in salary and welfare expenses, partly offset by a decrease of \$16.9 million in share-based compensation and a decrease of \$5.8 million in costs incurred in connection with our privatization. Our general and administrative expenses increased from \$143.7 million in 2015 to \$155.3 million in 2016, primarily due to an increase of \$22.3 million in share-based compensation, partly offset by a decrease of other operating expenses.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of salaries, commissions and other compensation expenses relating to our sales and marketing personnel, travel, brand building, and other expenses relating to our marketing activities. Our selling and marketing expenses have risen significantly in the past due to our increased business development and marketing activities. In 2014, our selling and marketing expenses decreased primarily due to decrease in amortization of intangible assets acquired in recent acquisitions. In 2015, our selling and marketing expenses increased primarily due to the increase of salary and welfare expenses and amortization of intangible assets acquired in recent acquisitions. In 2016, our selling and marketing expenses remained relatively stable compared with that in 2015.

Our selling and marketing expenses in 2014, 2015 and 2016 included amortization of intangible assets acquired in our recent acquisitions, which were \$5.5 million, \$7.3 million and \$9.4 million, respectively. The intangible assets primarily consist of the value of the acquired client base and contract backlog. Our selling and marketing expenses, excluding amortization of intangible assets, were \$37.9 million, \$40.4 million and \$38.0 million in 2014, 2015 and 2016, respectively.

We anticipate our sales and marketing expenses, excluding amortization of intangible assets, will continue to increase as we continue to build sales and marketing teams in our target markets.

Change in Fair Value of Contingent Consideration

In connection with certain acquisitions of Predecessor including, primarily, Pactera Financial Solutions, Innoveo, NouvEON, Bearing Point, Blue Fountain Media and Jinqiu, we agreed to pay certain performance-based cash consideration, which was measured and recorded at estimated fair value at the acquisition date and subsequently re-measured to fair value in each reporting period until settlement. During the year ended December 31, 2014, a loss in fair value of the contingent consideration was approximately \$1.1 million, which was primarily due to additional consideration that was paid out during 2014 based on certain acquirees' performance. During the year ended December 31, 2015, a gain in fair value of the contingent consideration was approximately \$1.2 million, which was primarily due to the dismissal of contingent payables to Echo Lane. During the year ended December 31, 2016, a loss in fair value of the contingent consideration was \$0.7 million, which was primarily due to additional consideration that was accrued during 2016 based on certain acquirees' performance.

Other Income and Expenses

Other income and expenses consists primarily of interest income and expenses, exchange differences and changes in the fair values of foreign currency forward contracts.

Acquisitions

Business acquisitions have allowed us to acquire additional expertise and capabilities and expand our client base and presence in key client locations, such as the United States and China. The financial results for our acquired businesses are consolidated in our operating results for periods after the acquisition. Therefore, our financial results in corresponding prior periods may not be directly comparable.

We anticipate that we may make additional selective acquisitions in order to increase our scale, geographic presence and service offerings and expand our capabilities, and we expect that acquisitions could be a significant source of revenue growth. Acquisition-related challenges include quickly and effectively integrating the acquired business and services into our existing business and service offerings and retaining acquired clients and employees. As a result, we may not realize the benefits of our acquisitions as soon as anticipated or at all. Also, these challenges become more difficult as we expand our business from primarily operating in China to operating on a global basis.

We had goodwill of \$135.8 million, \$137.0 million and \$154.4 million as of December 31, 2014, 2015 and 2016, respectively. We had acquisition-related intangible assets of \$108.3 million, \$101.4 million and \$94.9 million as of December 31, 2014, 2015 and 2016, respectively. In 2016, we did not recognize any impairment loss of intangible assets. We have and will continue to incur amortization expenses as we amortize acquired intangible assets with definite lives over their estimated useful lives. For additional information, see notes 10 and 11 to our audited consolidated financial statements for the year ended December 31, 2016 included elsewhere in this annual report.

We do not amortize our goodwill and indefinite-lived intangible assets but test it periodically for impairment. Impairment to our intangible assets and goodwill may adversely affect our results of operations. For additional information, see “Risk Factors—Risks Related to Our Business—If we are not successful in integrating and managing our past and future strategic acquisitions, our business and results of operations may suffer and we may incur exceptional expenses or write-offs.”

Income Taxes

The current and deferred components of income tax expense were as follows for the periods indicated:

	For the Year Ended December 31,		
	2014 (*)	2015 (Successor)	2016 (Successor)
	(dollars in thousands)		
Current			
—PRC and Hong Kong.....	\$ 9,155	\$ 3,689	\$ 6,197
—Japan.....	76	288	13
—U.S.....	451	13	25
—Singapore.....	292	58	-
—Australia	178	3	-
—Europe	(25)	(139)	40
	<u>10,127</u>	<u>3,912</u>	<u>6,275</u>
Deferred			
—PRC and Hong Kong.....	3,041	(1,967)	(2,593)
—Japan.....	888	(32)	(40)
—U.S.....	(1,141)	7	2,025
—Singapore.....	33	(107)	116
—Australia	689	-	-
—Europe	380	32	(87)
—Africa.....	(1)	-	-
	<u>3,889</u>	<u>(2,067)</u>	<u>(579)</u>
Income tax expense.....	<u>\$ 14,016</u>	<u>\$ 1,845</u>	<u>\$ 5,696</u>

* Combined results of the income tax expense of the Predecessor for the three months ended March 31, 2014 and income tax expense of the Successor for the nine months ended December 31, 2014.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties. As a result, HNA Ecotech is not subject to taxation on its income or capital gains under the current laws of the Cayman Islands. However, there is a risk that we may be treated as resident in the PRC for tax purposes. See “Risk Factors—Risks Related to China—Under the New EIT Law, we may be classified as a “resident enterprise” of China. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and our non-PRC noteholders.” DMK International, Pactera Technologies NA, Inc., NouvEON, Pactera Technologies Inc. and Blue Fountain Media were established in the United

States and are subject to United States federal income taxes at graduated rates ranging from 15% to 39% and state income taxes of 6%, 8.84%, 6.9%, 8.84% and 6.5%, respectively.

Our PRC subsidiaries were subject to standard income tax rates of 25% for 2014, 2015 and 2016. However, a number of our PRC subsidiaries enjoy various preferential treatments that have resulted in lower tax rates as listed below. Also see note 19 to our audited consolidated financial statements for the year ended December 31, 2016 included elsewhere in this annual report and “Risk Factors—Risks Related to China—The discontinuation of any of the preferential tax treatments available to us in China could materially and adversely affect our results of operations and financial condition.”

- Wuxi Pactera Technology Limited (“Pactera Wuxi”) and Shenzhen Pactera Information Limited (“Pactera Shenzhen Information”) were recognized as “newly setup software enterprises” and, as a result, Pactera Wuxi was entitled to enjoy the 12.5% preferential tax treatment as “newly setup software enterprises” in fiscal year 2014, and Pactera Shenzhen Information was exempted from the income tax in fiscal year 2015 and entitled to enjoy the 12.5% preferential tax treatment in fiscal year 2016.
- Pactera Shenzhen Systems and Shanghai Pactera Technology Limited (“Pactera Shanghai Technology”) have obtained approvals from the local tax authorities to enjoy the 15% preferential tax treatment as an “advanced technology service enterprise” in fiscal years from 2014 to 2015 and from 2014 to 2016, respectively.
- The following PRC subsidiaries of us have obtained approvals from the local tax authorities and were entitled to enjoy the 15% preferential tax treatment as a high and new technology enterprise in the following years respectively: Pactera Dalian (2016), HiSoft Beijing (2014 to 2016), Pactera Wuxi (2015 to 2016), Pactera Jinxin (2014 to 2016), Beijing Sunwin (2014 to 2016), Glory (2014 to 2016), Beijing DPC (2014), Pactera Beijing (2014 to 2016), Pactera Nanjing (2014 to 2016) and Pactera Shenzhen (2016).
- Pactera Dalian and Pactera Shenzhen were recognized as “key software enterprises within state plan” in fiscal year 2014. For 2015, Pactera Dalian and Pactera Shenzhen filed their income tax returns applying to enjoy the preferential income tax rate of 10% as “key software enterprise under the state plan” according to relevant tax laws and regulations

Our effective tax rate decreased from 177.7% in 2014 to negative 11.6% in 2015 and decreased to negative 14.8% in 2016. Our effective tax rate would have been 15.2% in 2014 if we excluded the impact from the withholding tax expenses incurred, the expenses incurred for the 2014 Merger, the share based compensation and the interest expenses incurred in connection with the Notes, as most of such expenses were directly incurred by Pactera and thus were not deductible for PRC tax purposes, 15.8% in 2015 if we excluded the impact from the share based compensation expenses and the interest expenses incurred in connection with our Notes which are not deductible for PRC tax purposes, and 28.9% in 2016 if we excluded the impact from the share based compensation and the interest expenses.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the years ended December 31, 2014, 2015 and 2016, respectively. This information should be read together with our audited consolidated financial statements and related notes included elsewhere in this annual report. The operating results in any period are not necessarily indicative of the results that may be expected for any future period.

For the Year Ended December 31,						
2014			2015		2016	
(**)			(Successor)		(Successor)	
(dollars in thousands, except for percentages)						
Summary Consolidated Statements of Operating Data						
Net revenues.....	\$ 712,555	100.0%	\$ 777,306	100.0%	\$ 806,061	100.0%
Cost of revenues ⁽¹⁾⁽²⁾	(510,580)	(71.7)%	(578,171)	(74.4)%	(611,772)	(75.9)%
Gross profit	201,975	28.3%	199,135	25.6%	194,289	24.1%
Operating expenses:						
General and administrative expenses ⁽¹⁾⁽²⁾	(130,733)	(18.3)%	(143,702)	(18.5)%	(155,292)	(19.3)%
Selling and marketing expenses ⁽¹⁾⁽²⁾	(43,428)	(6.1)%	(47,778)	(6.1)%	(47,394)	(5.9)%
Change in fair value of contingent consideration	(1,061)	(0.1)%	1,240	0.2%	(698)	(0.1)%
Total operating expenses....	(175,222)	(24.5)%	(190,240)	(24.5)%	(203,384)	(25.2)%
Income from operations	26,753	3.8%	8,895	1.1%	(9,095)	(1.1)%
Other income (expenses):						
Interest expense.....	(19,197)	(2.7)%	(24,693)	(3.2)%	(31,443)	(3.9)%
Interest income.....	1,641	0.2%	755	*%	587	0.1%
Exchange (losses) gain.....	(1,450)	(0.2)%	(687)	(*)%	1,772	0.2%
Change in fair value of foreign-currency forward contract.....	141	0.1%	(207)	(*)%	(434)	(0.1)%
Total other expenses	(18,865)	(2.6)%	(24,832)	(3.2)%	(29,518)	(3.7)%
Net income (loss) before income tax expense	7,888	1.2%	(15,937)	(2.1)%	(38,613)	(4.8)%
Income tax expense.....	(14,016)	(2.0)%	(1,845)	(0.2)%	(5,696)	(0.7)%
Loss before earning (loss) in equity method investments	(6,128)	(0.8)%	(17,782)	(2.3)%	(44,309)	(5.5)%
Loss in equity method investment	(3)	(*)%	(26)	(*)%	(72)	(*)%
Net loss	(6,131)	(0.8)%	(17,808)	(2.3)%	(44,381)	(5.5)%

* Less than 0.1

** Combined results of the consolidated statement of operations of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of operations of the Successor for the nine months ended December 31, 2014.

(1) Includes acquisition-related amortization of intangible assets totaling \$9.0 million, \$8.4 million and \$11.8 million in 2014, 2015 and 2016, respectively, allocated as follows:

For the Year Ended December 31,			
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(dollars in thousands)		
Cost of revenues.....	\$ 2,942	\$ 503	\$ 1,763
Operating expenses:			
General and administrative expenses	476	566	600
Selling and marketing expenses	5,537	7,337	9,416
Total	\$ 8,955	\$ 8,406	\$ 11,779

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014.

(2) Includes share-based compensation charges totaling \$23.5 million, \$4.1 million and \$30.1 million in 2014, 2015 and 2016, respectively, allocated as follows:

For the Year Ended December 31,			
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(dollars in thousands)		
Cost of revenues.....	\$ 1,495	\$ 6	\$ 2,381
Operating expenses:			
General and administrative expenses	21,137	4,003	26,297
Selling and marketing expenses	846	52	1,462
Total	\$ 23,478	\$ 4,061	\$ 30,140

* Combined results of the relevant data of the Predecessor for the three months ended March 31, 2014 and the relevant data of the Successor for the nine months ended December 31, 2014 and including incremental share-based compensation of \$13.9 million for the modification on the Merger Date.

Comparison of 2015 and 2016

Net Revenues

Our total net revenues increased by \$28.8 million, or 3.7%, from \$777.3 million in 2015 to \$806.1 million in 2016. The increase was primarily due to an increase of \$44.4 million, or 8.4%, in net revenues from IT services as a result of the growth of our CPS and ADM services, which was partly offset by a decrease of \$15.9 million in net revenues from RDS.

Cost of Revenues

Our total cost of revenues increased by \$33.6 million, or 5.8%, from \$578.2 million in 2015 to \$611.8 million in 2016. The increase reflected the growth in our net revenues for the same period and was also due to the hiring of additional headcount and an increase in salary and welfare expenses.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit decreased by \$4.8 million, or 2.4%, from \$199.1 million in 2015 to \$194.3 million in 2016. Gross margin was 24.1% in 2016, compared to 25.6% in 2015.

Operating Expenses

Our total operating expenses increased by \$13.2 million, or 6.9%, from \$190.2 million in 2015 to \$203.4 million in 2016. The increase was primarily due to an increase of \$11.6 million in general and administrative expenses and a loss of \$1.9 million in fair value of contingent consideration, which were partly offset by a decrease in selling and marketing expenses.

General and administrative expenses. Our general and administrative expenses increased by \$11.6 million, or 8.1%, from \$143.7 million in 2015 to \$155.3 million in 2016. Such increase was primarily due to an increase of \$22.3 million in share-based compensation. General and administrative expenses as a percentage of our total net revenues was 19.3% in 2016, compared to 18.5% in 2015.

Selling and marketing expenses. Our selling and marketing expenses decreased by \$0.4 million, or 0.8%, from \$47.8 million in 2015 to \$47.4 million in 2016. This decrease was primarily due to a decrease of \$1.6 million in salary and welfare expenses, a decrease of \$1.4 million in travel expenses, and a decrease of \$0.9 million in other expenses, partly offset by an increase of \$1.4 million in deferred share compensation and an increase of \$2.1 million in amortization of intangible assets acquired in acquisitions. Selling and marketing expenses as a percentage of our total net revenues remained stable across 2015 and 2016.

Our selling and marketing expenses in 2015 and 2016 included amortization of intangible assets acquired in our recent acquisitions, which were \$7.3 million and \$9.4 million, respectively. The intangible assets primarily consist of the value of the acquired customer relationship and contract backlog. Our selling and marketing expenses, excluding amortization of intangible assets, were \$40.4 million and \$38.0 million in 2015 and 2016, respectively.

Change in Fair Value of Contingent Consideration. The change in fair value of contingent consideration changed to a loss of \$0.7 million in 2016 from a gain of \$1.2 million in 2015. The loss in fair value of contingent consideration was primarily due to additional consideration that was accrued during 2016 based on certain acquirees' performance.

Other Loss

Other loss was \$29.5 million in 2016 compared to other loss of \$24.8 million in 2015. Other loss in 2016 was primarily due to interest expense of \$22.9 million recorded for our Notes and the Senior Secured Credit Facilities as well as the related financing fees of \$6.6 million.

Income Tax Expense

We incurred an income tax expense of \$5.7 million in 2016 compared to an income tax expense of \$1.8 million in 2015. The increase was primarily due to an increase of taxable income.

Net Loss

As a result of the foregoing, our net loss was \$44.4 million in 2016 compared to net loss of \$17.8 million in 2015.

Comparison of 2014 and 2015

Net Revenues

Our total net revenues increased by \$64.7 million, or 9.1%, from \$712.6 million in 2014 to \$777.3 million in 2015. The increase was primarily due to an increase of \$51.4 million, or 10.8%, in net revenues from IT services as a result of the growth of our CPS and ADM services.

Cost of Revenues

Our total cost of revenues increased by \$67.6 million, or 13.2%, from \$510.6 million in 2014 to \$578.2 million in 2015. The increase reflected the growth in our net revenues for the same period and was also due to the hiring of additional headcount and an increase in salary and welfare expenses.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit decreased by \$2.9 million, or 1.4%, from \$202.0 million in 2014 to \$199.1 million in 2015. Gross margin was 25.6% in 2015, compared to 28.3% in 2014.

Operating Expenses

Our total operating expenses increased by \$15.0 million, or 8.6%, from \$175.2 million in 2014 to \$190.2 million in 2015. The increase was primarily due to an increase of \$13.0 million in general and administrative expenses and an increase of \$4.4 million in selling and marketing expenses, which were partly offset by a gain in fair value of contingent consideration.

General and administrative expenses. Our general and administrative expenses increased by \$13.0 million, or 9.9%, from \$130.7 million in 2014 to \$143.7 million in 2015. Such increase was primarily due to an increase of \$33.0 million in salary and welfare expenses, partly offset by a decrease of \$16.9 million in share-based compensation and a decrease of \$5.8 million in costs incurred in connection with our privatization. General and administrative expenses as a percentage of our total net revenues remained relatively stable at 18.3% in 2014 and 18.5% in 2015.

Selling and marketing expenses. Our selling and marketing expenses increased by \$4.4 million, or 10.0%, from \$43.4 million in 2014 to \$47.8 million in 2015. This increase was primarily due to an increase of salary and welfare expenses and amortization of intangible assets acquired in recent acquisitions. Selling and marketing expenses as a percentage of our total net revenues remained stable across 2014 and 2015.

Our selling and marketing expenses in 2014 and 2015 included amortization of intangible assets acquired in our recent acquisitions, which were \$5.5 million and \$7.3 million, respectively. The intangible assets primarily consist of the value of the acquired customer relationship and contract backlog. Our selling and marketing expenses, excluding amortization of intangible assets, were \$37.9 million and \$40.4 million in 2014 and 2015, respectively.

Change in Fair Value of Contingent Consideration. The change in fair value of contingent consideration changed to a gain of \$1.2 million in 2015 from a loss of \$1.1 million in 2014. The gain in fair value of contingent consideration was primarily due to the dismissal of contingent payables to Echo Lane. For more information, see “Legal Proceedings”.

Other Loss

Other loss was \$24.8 million in 2015 compared to other loss of \$18.9 million in 2014. Other loss in 2015 was primarily due to interest expense of \$22.4 million recorded for our Notes and the Senior Secured Credit Facilities as well as the related financing fees of \$2.3 million.

Income Tax Expense

We incurred an income tax expense of \$1.8 million in 2015 compared to an income tax expense of \$14.0 million in 2014. The decrease was primarily due to the withholding tax of \$6.9 million for the distribution of dividends that certain of our subsidiaries incurred in 2014 and the net loss before income tax expense of certain of our subsidiaries in 2015.

Net Loss

As a result of the foregoing, our net loss was \$17.8 million in 2015 compared to net loss of \$6.1 million in 2014.

Critical Accounting Policies

The preparation of our consolidated financial statements and related notes requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our board of directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following critical accounting policies are the most sensitive and require more significant estimates and assumptions used in the preparation of our consolidated financial statements. You should read the following descriptions of critical accounting policies, judgments and estimates in conjunction with our consolidated financial statements and other disclosures included in this annual report.

Revenue Recognition

We make certain judgments regarding the method of recognizing revenue, costs and time required to complete projects for our clients.

Arrangements for technology outsourcing services are either performed on a time-and-materials or fixed-price basis.

Revenues from time-and-materials contracts are recognized as billable services as rendered, assuming all other basic revenue recognition criteria are met. The client is billed for related services based on pre-agreed charge rates. There are no significant assumptions related to time-and-materials arrangements.

Revenues from fixed-price contracts are recognized using the proportional performance method as determined by the proportion of the contract costs incurred to date relative to the estimated total contract costs at completion. Estimated contract costs are determined based on budgets that are reviewed monthly and revised as necessary. We review the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by members of management having the relevant authority. As part of the review process, our management regularly compares and analyzes the actual costs and the estimate of costs to complete the projects to the original estimated costs and the total contract price with revisions to estimates reflected in the period in which changes become known. To date, we have not incurred a material loss on any contracts executed on a fixed-price basis. However, our policy is to make provisions for estimated losses on such engagements during the period in which a loss becomes probable and can be reasonably estimated.

Reimbursable out-of-pocket expenses and material costs are recognized as revenues when billed.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a certain period, we must include an expense within the tax provision in the consolidated statement of operations.

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance, which could materially impact our financial position and results of operations.

US GAAP requires that the impact of an uncertain income tax position on the income tax return be recognized at the largest amount that is more likely than not to be sustained upon audit by the relevant tax authority. If we ultimately determine that the payment of these liabilities will be unnecessary, we will reverse the liability and recognize a tax benefit during that period. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. During the years ended December 31, 2014, 2015 and 2016, there was no change in our unrecognized tax position.

Uncertainties exist with respect to how the New EIT Law applies to our overall operations, and more specifically, with regard to our tax residency status. The New EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for the PRC income tax purposes if their “de facto management bodies” are within the PRC. The Implementation Rules define the term “de facto management bodies” as “establishments that carry out substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, etc. of an enterprise.” Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, we do not believe that our legal entities organized outside the PRC should be treated as residents under the New EIT Law. If one or more of our legal entities organized outside the PRC were characterized as PRC tax residents, the impact would adversely affect our results of operations. See “Risk Factors—Risks Related to China—Under the New EIT Law, we may be classified as a “resident enterprise” of China. Such classification would likely result in unfavorable tax consequences to us and our non-PRC shareholders and our non-PRC noteholders.”

Accounts Receivable

Accounts receivables represent those receivables derived in the ordinary course of business. Notes receivables are bank accepted and commercial accepted drafts related to trade receivables of revenue with a maturity less than six months. We maintain an allowance for doubtful accounts for estimated incurred losses on uncollected accounts receivables and notes receivables. We consider the following factors when determining the collectability of specific accounts: credibility of the customers, aging of the receivables, historical loss experience and other specific circumstances related to the accounts. We consider the following factors when determining the collectability of specific accounts: credibility of the client, age of the receivables, historical loss experience and other specific circumstances related to the accounts. We conduct credit evaluations of clients and generally do not require collateral or other security from our clients. If the frequency and amount of client defaults change due to our clients' financial condition or general economic conditions, our allowance for uncollectible accounts may require adjustment. As a result, we continuously monitor outstanding receivables and adjust allowance for

accounts where collection may be in doubt. We recorded allowance for doubtful accounts of \$1.3 million, \$7.4 million and \$1.7 million for the years ended December 31, 2014, 2015 and 2016, respectively.

Business Combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any non-controlling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as at the date of acquisition.

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified post-acquisition conditions, the contingent consideration is recognized and measured at its fair value as of the date of acquisition and recorded as a liability and subsequently carried at fair value with changes in fair value reflected in the consolidated statements of operations.

Goodwill and Intangible Assets

Goodwill represents the purchase price of an acquired business in excess of the fair value of identifiable tangible and intangible net assets purchased. We generally seek the assistance of an independent valuation firm in determining the fair value of the identifiable tangible and intangible net assets of the acquired business.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, we typically use the income method. This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include the amount and timing of projected future cash flows, the discount rate selected to measure the risks inherent in the future cash flows, and the assessment of the asset's life cycle and the competitive trends impacting the asset, including consideration of any technical, legal, regulatory or economic barriers to entry. Determining the useful life of an intangible asset also requires judgment as different types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives.

We test goodwill for impairment on an annual basis. Absent from any impairment indicators, we perform its annual impairment test on December 31 each year. Recoverability of goodwill is evaluated using a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

Intangible assets with determinable useful lives are amortized either on a straight-line basis or using the estimated attrition pattern. Intangible assets with indefinite lives are not amortized until its useful life is determined to be no longer indefinite.

We evaluate intangible assets with determinable useful life for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. We measure the carrying amount of the intangible asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value.

We test an indefinite-lived intangible asset that is not subject to amortization for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test consists of the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values.

Estimates of fair value result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions at a point in time. The judgments made in determining an estimate of fair value can materially impact our results of operations. The valuations are based on information available as of the impairment review date and are based on expectations and assumptions that have been deemed reasonable by management. Any changes in key assumptions, including unanticipated events and circumstances, may affect the accuracy or validity of such estimates and could potentially result in an impairment charge.

Share-Based Compensation

Our share-based compensation is measured based on the grant date fair value of the equity instrument we issued and recognized as a compensation expense over the requisite service period based on a graded vesting attribution method, with a corresponding adjustment reflected in additional paid-in capital.

Successor is a private company with no quoted market prices for our common shares. We therefore needed to estimate the fair value of our common shares at the date of the grant of option awards to our employees as one of the inputs in determining the fair value of the option awards.

The fair value of the common shares was estimated by us, with the assistance of an independent third-party appraiser. In determining the fair value of our common shares, we have considered the guidelines prescribed by the AICPA Audit and Accounting Practice Aid, Valuation of Privately-Held Company Equity Securities Issued and Compensation, or the Practice Aid. Specifically, paragraph 16 of the Practice Aid sets forth the preferred types of valuation that should be used.

The independent third-party appraiser used the discounted cash flow ("DCF") method of the income approach to derive the fair value of our common shares by dividing the equity fair value and proceeds from in-the-money options by the total number of shares and in-the-money options. The determination of the fair value of our common shares required complex and subjective judgments to be made regarding our projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of valuation.

The major assumptions used in calculating the fair value of common shares include the weighted average cost of capital ("WACC"): the WACC was determined based on a consideration of such factors as the risk-free rate, comparative industry risk, equity risk premium, company size and company-specific factors. In deriving the WACC, which is used as the discount rate under the income approach, certain comparable companies in the IT industry were selected for reference as our guideline companies.

The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts developed by us. The assumptions used in deriving the fair values were consistent with our business plan. However, these assumptions were inherently uncertain and highly subjective. These assumptions include: no material changes in the existing political, legal and economic conditions in China; no major changes in the tax rates applicable to our subsidiaries and consolidated affiliated entities in China; our ability to retain competent management, key personnel and staff to support our ongoing operations; and no material deviation in market conditions from economic forecasts.

Successor has granted three kinds of awards to the employees as of December 31, 2016, including: (i) certain options, restricted shares (“RSs”) and restricted share units (“RSUs”) of Predecessor that were rolled over into options, RSs and RSUs of Parent on the Merger Date (i.e., replacement award), (ii) other than options, RSs and RSUs that were settled in cash at the time of the 2014 Merger or rolled over into replacement award, Parent also granted a cash-out award for each remaining outstanding option, RS or RSU of the Predecessor (i.e., cash-out award), and (iii) certain options, time-based nonvested shares units and performance-based nonvested share units under Parent's Omnibus Incentive Plan approved by the board of directors of Parent on August 13, 2014 (the “2014 Omnibus Incentive Plan”).

The fair value of the options rolled over and cashed out under the 2014 Merger on March 27, 2014 and options granted under 2014 Omnibus Incentive Plan were estimated with the assistance of an independent third-party appraiser, and was determined using binomial model with the following assumptions:

	Options rolled over and cashed out on March 27, 2014	Options granted under 2014 Omnibus Incentive Plan
Risk-free interest rate range	3.75%-3.83%	1.32% - 2.50%
Expected dividend yield.....	Nil	Nil
Expected volatility	41%	35.5% - 48.4%
Exercise price.....	\$4.99	\$4.38
Fair value of the underlying common shares	\$4.12	\$3.55 to \$5.08

The risk-free interest rate for periods within the expected life of the option is based on the market yield of the U.S. Treasury bill with a maturity close to the valuation date plus a country spread premium. As Successor expected to grow the business with internally generated cash, Successor did not expect to pay dividends in the foreseeable future. The volatility of the underlying common shares during the life of the options was estimated based on average historical volatility of comparable companies for the period before the valuation date with lengths equal to the life of the options. The fair value of the common shares underlying was estimated based on the fair value of common share of Parent as of the grant date, which was estimated with the assistance of an independent third-party appraiser.

The fair value of Parent's time-based nonvested share units and performance-based nonvested share units under the 2014 Omnibus Incentive Plan were estimated on the date of grant using the fair value of its common shares on the date of grant.

We did not record any compensation expense in the consolidated statements of operations for nonvested share units granted under the 2014 Omnibus Incentive Plan for the nine months ended December 31, 2014 and for the year ended December 31, 2015 of Successor as the occurrence of an IPO or a change of control is generally not considered to be probable until the IPO is effective or a change of control is complete.

As a change of control occurred on January 3, 2017, which led to the event of change of control probable as of December 31, 2016. Accordingly, there were 3,623,539 time-based nonvested share units and 2,314,000 performance-based nonvested share units vested as of December 31, 2016. We recorded compensation expense of \$29.6 million under the 2014 Omnibus Incentive Plan for the year ended December 31, 2016.

Liquidity and Capital Resources

In 2014, 2015 and 2016, we generated positive cash flows from operating activities. As of December 31, 2014, 2015 and 2016, we had approximately \$114.8 million, \$87.3 million and \$101.3 million in cash and cash equivalents, respectively. The decrease of \$27.5 million from 2014 to 2015 was mainly due to the decrease in net cash provided by operating activities in 2015, which was partly offset by a decrease in net cash used in investing and financing activities in 2015. The increase of \$14.0 million from 2015 to 2016 was mainly due to an increase in net cash provided by operating, investing and financing activities in 2016, which was partly offset by a loss in exchange rate changes. Our cash and cash equivalents consist primarily of cash on hand and highly liquid investments. We believe that our cash and cash equivalents, anticipated cash flows from operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. The following table sets forth a summary of our cash flows for the periods indicated:

	For the Year Ended December 31,		
	2014	2015	2016
	(*)	(Successor)	(Successor)
	(dollars in thousands)		
Net cash provided by operating activities	\$ 41,714	\$ 151	\$ 14,169
Net cash provided by (used in) investing activities	(34,515)	(19,529)	4,659
Net cash provided by (used in) financing activities....	(38,691)	(6,244)	1,877
Effect of foreign exchange rate changes on cash	(2,225)	(1,875)	(6,670)
Net increase (decrease) in cash and cash equivalents .	(33,717)	(27,497)	14,035
Cash and cash equivalents at beginning of period	148,518	114,801	87,304
Cash and cash equivalents at end of period	114,801	87,304	101,339

* Combined results of the consolidated statement of cash flows of the Predecessor for the three months ended March 31, 2014 and the consolidated statement of cash flows of the Successor for the nine months ended December 31, 2014.

We had \$0.2 million and nil in term deposits as of December 31, 2015 and 2016, respectively. Total cash and cash equivalents, restricted cash and term deposits as of December 31, 2015 and 2016 were \$101.5 million and \$105.5 million, respectively.

A majority of our revenues are earned by our PRC subsidiaries. However, PRC regulations restrict the ability of our PRC subsidiaries to make dividends and other payments to their offshore parent company. The total amount of our restricted net assets was \$116.9 million as of December 31, 2016. See “Risk Factors—Risks Related to China—Restrictions under PRC law on our PRC subsidiaries’ ability to make dividends and other distributions could materially and adversely affect our ability to grow, make investments or acquisitions that could benefit our business, pay dividends to the Company, make payments under the Notes and otherwise fund and conduct our businesses.”

Operating Activities

Net cash provided by operating activities was \$0.2 million for 2015, compared to \$41.7 million for 2014. This was mainly due to the increases in accrued expenses and other payables, depreciation, amortization of intangible assets and allowance for doubtful accounts, which were partly offset by the net loss of \$17.8 million and an increase in accounts and notes receivables. Our net revenues were \$777.3 million in 2015, while cost of revenues and operating expenses, after deducting non-cash items and items that did not affect our operating cash flows, were \$736.8 million for 2015. Net cash provided by operating activities was \$14.2 million for 2016, compared to \$0.2 million for 2015. This was mainly due to the increases in accrued expenses and other payables, depreciation, amortization of intangible assets and share based compensation expenses, which were partly offset by the net loss of \$44.4 million and an increase in accounts and notes receivables. Our net revenues were \$806.1 million in 2016, while cost of

revenues and operating expenses, after deducting non-cash items and items that did not affect our operating cash flows, were \$758.6 million for 2016. As of December 31, 2016, our days of sales of accounts receivables outstanding were 139 days, as compared to 135 days for 2015.

Investing Activities

Net cash used in investing activities largely reflects (i) capital expenditures, which principally consists of purchases of property, plant, equipment and buildings made in connection with the expansion and upgrade of our service delivery centers and (ii) our business acquisitions.

Net cash used in investing activities for 2015 was \$19.5 million, compared to net cash used in investing activities of \$34.5 million for 2014. Net cash used in investing activities for 2015 was mainly attributable to payment of considerations for business acquisitions, an increase in placement of restricted cash and purchase of property, plant and equipment, which were partly offset by a decrease in placement of term deposits. Net cash provided by investing activities for 2016 was \$4.7 million, compared to net cash used in investing activities of \$19.5 million for 2015. Net cash provided by investing activities for 2016 was mainly attributable to the repayment by Mr. Loh of a loan extended to him before.

We expect our cash used in investing activities over the next several years to continue to be primarily driven by business acquisitions and purchases of property, plant and equipment.

Financing Activities

Net cash used in financing activities for 2014 was \$38.7 million, primarily attributable to payments of deferred and contingent consideration for business acquisitions, payment of interest expenses for the Notes and the Senior Secured Cash Bridge Facility, and payments of withholding tax on intercompany dividend payable, which were partly offset by proceeds received from Parent for payments to former shareholders of Pactera. Net cash used in financing activities for 2015 was \$6.2 million, primarily attributable to payment of interest expenses for the Notes, repayment of bank loans and payment of deferred and contingent consideration for business acquisitions, which were partly offset by proceeds received under the Senior Secured Credit Facilities and other short-term borrowings. Net cash provided by financing activities for 2016 was \$1.9 million, primarily attributable to proceeds from short-term borrowings, which were partly offset by repayment of bank loans and payment of interest expenses for the Notes.

Senior Secured Credit Facilities

Our Senior Secured Credit Facilities comprise a \$30.0 million Offshore Revolver and \$20.0 million equivalent Onshore Revolver. As of December 31, 2016, we had \$48.0 million of unutilized capacity under these Senior Secured Credit Facilities. On January 3, 2017, we paid off all amounts outstanding under, and terminated the credit agreements governing such Senior Secured Credit Facilities.

Debt Purchases

As market conditions warrant, we and our equity holders may from time to time seek to purchase our outstanding debt securities, including the Notes, in privately negotiated or open market transactions, by tender offer or otherwise. Subject to any applicable limitations contained in the agreements governing our indebtedness, any purchases made by us may be funded by the use of cash on our balance sheet or the incurrence of new secured or unsecured debt, including borrowings under our Senior Secured Credit Facilities. For more information, see “Risk Factors—Risks Related to the Notes and Our Indebtedness.”

\$169.4 million of the Notes was redeemed and cancelled in connection with the Change of Control Offer. On April 3, 2017, payment was made in full with respect to the Notes tendered in the Change of Control Offer by the Company using primarily proceeds of an unsecured interest-free shareholder loan from Great Paeon.

Statutory Reserves

Our statutory reserves were \$22.1 million, \$23.4 million and \$25.7 million as of December 31, 2014, 2015 and 2016, respectively. These reserves represent the amount of retained earnings in our PRC subsidiaries that cannot be distributed to their immediate holding companies. However, they can be used for general business purposes without any restrictions in the country where located.

Capital Expenditures

Our capital expenditures were \$13.5 million, \$9.0 million and \$10.8 million in 2014, 2015 and 2016, respectively. Our capital expenditures for 2014, 2015 and 2016 were primarily related to purchasing new equipment for new employees and to replace existing equipment, purchasing office building in Wuxi and payment to constructors of office buildings in Beijing.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued a new pronouncement in ASU No. 2014-09, which affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

An entity should apply the amendments in this ASU using one of the following two methods:

Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:

For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.

For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.

For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.

Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:

The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.

An explanation of the reasons for significant changes.

For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. Nonpublic entities may also elect to apply the ASU as of (1) the same effective date as that for public entities (annual reporting periods beginning after December 15, 2016, including interim periods), (2) annual periods beginning after December 15, 2016 (excluding interim reporting periods), or (3) annual periods beginning after December 15, 2017 (including interim reporting periods).

In August 2015, the FASB issued a new pronouncement, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in this ASU defer the effective date of ASU No. 2014-09 for all entities by one year. Non-public entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Non-public entities may apply the guidance in ASU No. 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU No. 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU No. 2014-09.

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In February 2016, the FASB issued a new lease accounting guidance in ASU No. 2016-02, Leases. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal

years beginning after December 15, 2020. Early application is permitted for all nonpublic business entities upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In March 2016, the FASB issued a new pronouncement which relates to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 Revenue from Contracts with Customers requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (i.e., the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (i.e., the entity is an agent).

The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying the following:

- An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
- An entity determines the nature of each specified or service (e.g., whether it is a good, service, or a right to a good or service).
- When another entity is involved in providing goods or services to a customer, an entity that is a principal obtains control of: (a) a good or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) a good or service from the other party that it combines with other goods or services to provide the specified good or service to the customer.
- The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.

The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In March 2016, the FASB issued a new pronouncement which is intended to improve the accounting for employee share-based payments and affect all organizations that issue share based payment awards to their employees.

Several aspects of the accounting for share-based payment award transactions are simplified, including:

- (a) An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur;
- (b) cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity;
- (c) A nonpublic entity can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain conditions;
- (d) A nonpublic entity can make a one-time accounting policy election to switch from measuring all liability-classified awards at fair value to intrinsic value.

For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted.

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In May 2016, the FASB issued a new pronouncement which provides clarifying guidance in certain narrow areas and add some practical expedients as discussed below.

The amendments clarify the objective of the collectability criterion in revenue recognition. The objective of this assessment is to determine whether the contract is valid and represents a substantive transaction on the basis of whether a customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer. The amendments also add a new criterion to paragraph 606-10-25-7 to clarify when revenue would be recognized for a contract that fails to meet the criteria in revenue recognition. That criterion allows an entity to recognize revenue in the amount of consideration received when the entity has transferred control of the goods or services, the entity has stopped transferring goods or services (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

The amendments permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.

The amendments specify that the measurement date for noncash consideration is contract inception. The amendments also clarify that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration.

The amendments provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

The amendments clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application. Accounting for elements of a contract that do not affect revenue under legacy GAAP are irrelevant to the assessment of whether a contract is complete. In addition, the amendments permit an entity to apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts.

The amendments clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of

adoption. However, an entity is still required to disclose the effect of the changes on any prior periods retrospectively adjusted.

The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In August 2016, the FASB issued a new pronouncement ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

For nonpublic business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

We are in the process of evaluating the impact of this pronouncement to our consolidated financial statements.

In November 2016, the FASB issued a new pronouncement, ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms "restricted cash" and "restricted cash equivalents" but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.

- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.
- Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For nonpublic business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

We does not expect the adoption of this pronouncement will have significant impact on our consolidated financial statements.

In January 2017, the FASB issued a new pronouncement, ASU 2017-01, which clarifies the definition of a business in ASC 805. The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient.

The ASU narrows the definition of a business and provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. Specifically, the ASU:

- Provides a “screen” for determining when a set is not a business.
- Specifies that if the screen’s threshold is not met, a set cannot be considered a business unless it includes an input and a substantive process that together significantly contribute to the ability to create outputs.
- Narrows the definition of the term “output” to be consistent with the description of outputs in ASC 606.

For nonpublic entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this Update should be applied prospectively on or after the effective date.

We does not expect the adoption of this pronouncement will have significant impact on our consolidated financial statements.

In January 2017, the FASB issued a new pronouncement, ASU 2017-04, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

In addition, the ASU clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity’s testing of reporting units for goodwill impairment. The ASU also clarifies that an entity should consider income tax effects from any

tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

Nonpublic business entities should adopt the guidance for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

We does not expect the adoption of this pronouncement will have significant impact on our consolidated financial statements.

Research and Development

We did not incur material expenditures with respect to our research and development activities in any of the three years ended December 31, 2014, 2015 or 2016.

Off-Balance Sheet Arrangements

Other than the transactions set forth under “Tabular Disclosure of Contractual Obligations” below, we do not have any outstanding off-balance sheet commitments or arrangements, including off-balance sheet guarantees or interest rate swap transactions. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Tabular Disclosure of Contractual Obligations

Contingent Acquisition Payments

As of December 31, 2016, in connection with our recent acquisitions, we agreed to make contingent payments of up to \$14.2 million in cash, subject to the achievement of certain financial performance targets during various periods from 2016 to 2019.

Contractual Obligations

The following table sets forth our contractual obligations (excluding interest on the Notes and short-term borrowings) and other commitments as of December 31, 2016:

	Total	Within 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
	(dollars in thousands)				
Operating lease and capital commitment obligations	30,758	11,001	14,334	5,418	5
Contingent acquisition consideration payable	14,203	7,845	6,358	-	-
Short-term borrowings	44,798	44,798	-	-	-
Notes	275,000	169,362	-	105,638	-
Total	364,759	233,006	20,692	111,056	5

Quantitative and Qualitative Disclosures about Market Risk

Foreign Exchange Risk

We use the U.S. dollar as our functional and reporting currency for our financial statements. All transactions in currencies other than the U.S. dollar during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at

the balance sheet date denominated in currencies other than the U.S. dollar are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. The financial records of each of our subsidiaries are maintained in the subsidiary's respective local currency. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income under shareholders' equity.

The majority of our revenues are generated in Renminbi, U.S. dollars and Japanese yen, while the majority of our costs are denominated in Renminbi. Accordingly, changes in exchange rates, especially relative changes in exchange rates among the Renminbi, U.S. dollar and Japanese yen, may have a material effect on our revenues, costs and expenses, gross margin and net income. Moreover, the relative value of assets and liabilities denominated in different currencies fluctuates along with changes in the exchange rates between those currencies. Considering the amount of our cash and cash equivalents as of December 31, 2016, a 1% change in the exchange rates between the Renminbi and the U.S. dollar would result in an increase or decrease of \$0.7 million to our total cash and cash equivalents and a 1% change in exchange rates between the U.S. dollars and the Japanese yen would result in an increase or decrease of \$0.1 million to our total cash and cash equivalents.

The U.S. dollar and Japanese yen are freely convertible currencies with floating exchange rates.

Although the Renminbi is no longer pegged to the U.S. dollar, movements in the Renminbi exchange rate remain tightly controlled by the PBOC. However, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar and other currencies in the medium to long term, and the PRC authorities may allow the Renminbi to fluctuate more freely in the future.

We have in the past entered into a limited number of currency forward contracts, mainly as to Renminbi and Japanese yen to partially hedge our exposure to risks relating to fluctuations in the Renminbi-yen exchange rate, and we periodically review the need to enter into hedging transactions to protect against fluctuations in the Renminbi-U.S. dollar and Renminbi-Japanese yen exchange rates. These foreign currency forward contracts typically mature over a period of one to six months. We recorded a gain of \$141,000 in 2014, a loss of \$207,410 in 2015 and a loss of around \$434,000 in 2016 on account of currency forward contracts. We mark to market these contracts at the end of each reporting period and recognize the change in fair value in earnings immediately. As of December 31, 2016, we held foreign exchange forward contracts with an aggregate notional amount of approximately \$12.0 million. As of December 31, 2016, the fair value of the forward contracts was nil.

Interest Rate Risk

Our exposure to interest rate risk primarily relates to interest income generated by excess cash, which is mostly held in interest-bearing bank deposits. We have not used derivative financial instruments in our investment portfolio. Interest-earning instruments carry a degree of interest rate risk. A 1% decrease in each applicable interest rate would deduct \$0.3 million from our interest income in 2016. We have not been exposed, nor do we anticipate being exposed, to material risks due to changes in market interest rates. However, our future interest income may fall short of expectations due to changes in market interest rates.

Inflation

Inflation in China has not materially impacted our results of operations in recent years. According to the National Bureau of Statistics of China, the consumer price index in China increased by 2.0%, 1.4% and 2.0% in 2014, 2015 and 2016 respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

Financial Statements and Supplementary Data

Our audited consolidated financial statements are set forth in this annual report beginning on page F-1 at the end of this annual report.

Directors, Executive Officers and Corporate Governance

Below is a list of the names, ages as of the date of this annual report, positions, and a brief account of the business experience, of the individuals who serve as directors of our Company and executive officers of the Parent and its consolidated subsidiaries (the “Group”) as of the date of this annual report.

Name	Age	Position / Title
Tiak Koon Loh.....	58	Chief Executive Officer
Edmond Fong Ting Cheng.....	55	Chief Financial Officer and Executive Vice President
Jun Su.....	46	Corporate Executive Vice President
Liang Guo	36	Director
Wenbin Li	31	Director

Tiak Koon Loh has served as the chief executive officer of the Group since 2006. Prior to joining us in June 2006, Mr. Loh served as corporate vice president at China Hewlett-Packard Co., Ltd. from 2004 to 2006. Prior to that, Mr. Loh was the chief executive officer at Vanda Systems & Communications Holdings Limited (currently known as Hutchison Global Communications Holdings Ltd.) from 2001 to 2004. Mr. Loh also served, from 1998 to 2000, as the managing director and chief executive officer of Capgemini Asia-Pacific Pte. Ltd. He was the managing director of Lotus Development Singapore Pte. Ltd. from 1995 to 1998. Mr. Loh started his career at IBM Singapore Pte. Ltd. where he held various management positions from 1983 to 1994. Mr. Loh graduated from National University of Singapore with a bachelor’s degree in electrical engineering.

Edmond Fong Ting Cheng has served as the chief financial officer and executive vice president of the Group since 2015. Prior to joining us, he served as the chief financial officer of TCL Multimedia Technology Holdings Limited from 2011 to 2014. From 2005 to 2011, he served as the chief financial officer of Titan Petrochemicals Group Ltd, PSA International PTE Ltd, Zoomlion Science & Technology Development Company Ltd, and UTStarcom Inc., USA. Mr. Cheng received an executive master’s degree in business administration from the EMBA Global Asia program offered jointly by Columbia University, London Business School and Hong Kong University. He received a master’s degree in accounting in 1986 and a bachelor’s degree in business administration in 1984 from University of Hawaii. Mr. Cheng has also been a member of AICPA since 1986.

Jun Su has served as the corporate executive vice president of the Group since November 2012. Before that, Mr. Su was in charge of our United States business unit as an executive vice president. Prior to joining us in 2009, Mr. Su served in a variety of roles for over 14 years at Hewlett-Packard Company and China Hewlett-Packard Co., Ltd. from 1996 to 2009. From 2007 to 2009, he was the senior director of sales at China Hewlett-Packard Co., Ltd. with responsibility for software service sales management in the Asia-Pacific region. Mr. Su received a master’s degree in computer science from Brigham Young University in the United States and a bachelor’s degree in physics from the University of Science and Technology of China.

Liang Guo has served as a director of our Company since January 2017. Mr. Guo is the chief financial officer of HNA EcoTech Group Co., Ltd., which indirectly owns 100% of the outstanding equity interest in our Company. Prior to joining HNA EcoTech Group Co., Ltd., Mr. Guo served as the general manager of the risk control department at HNA Financial Services Co., Ltd. in 2016. He also acted as the divisional manager of the finance department at China Xinhua Airlines Group Co., Ltd. from 2005 to 2015. Mr. Guo graduated from Wuhan University in 2002 with a bachelor’s degree in economics.

Wenbin Li has served as a director of our Company since January 2017. Mr. Li is the chief investment officer of HNA EcoTech Group Co., Ltd., which indirectly owns 100% of the outstanding equity interest in our Company. Prior to joining HNA EcoTech Group Co., Ltd., Mr. Li was the chief

financial officer of HNA Logistics in 2016. Prior to that, he was the deputy manager of HNA Group Finance Co., Ltd. and the assistant to president of HNA Group Co., Ltd. from 2015 to 2016. From 2011 to 2015, he acted as the assistant to vice chairman and chief executive officer of HNA Group Co., Ltd. Mr. Li received a master's degree in international business and a bachelor's degree in management in 2016 and 2009, respectively, from University of International Business and Economics.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

HNA owns, through Parent, 100% of HNA Ecotech (excluding any share awards granted under any equity incentive plans of Parent).

Certain Relationships and Related Transactions

Loan Agreement

In October 2014, we entered into a loan agreement with Mr. Loh, the chief executive officer of the Company, to provide Mr. Loh a loan of \$10.0 million. Pursuant to the loan agreement, the loan bears no interest and is due for repayment no later than five years from the date the loan was received by Mr. Loh. During the loan period, the loan is secured by a first ranking perfected equitable mortgage over all of the securities that Mr. Loh owned of Parent. The largest outstanding balance of the loan in 2016 was \$7.1 million. As of December 31, 2016 and March 31, 2017, the outstanding balance of the loan was \$3.9 million and \$2.4 million, respectively.

Transactions with Great Paeon

As of the date of this annual report, we had a total amount of \$2.9 million due from Great Paeon, which was used to support the management of Parent.

As of the date of this annual report, we had a total amount of \$5.7 million due to Great Paeon, which was used to repay the outstanding drawing of \$2.0 million and the letter of guarantee of \$3.5 million under the Offshore Revolving Credit Facility.

In March 2017, we entered into a shareholder loan agreement with Great Paeon with a principal amount of \$177.4 million for the purpose of purchasing the Notes tendered in the Change of Control Offer. The loan under this shareholder loan agreement is unsecured and interest-free and will mature on the second anniversary of the withdrawal of the loan. As of the date of this annual report, the outstanding balance of the loan under this shareholder loan agreement was \$89.7 million, with the remaining amount expected to be drawn down during the second quarter of 2017.

Transactions with HNA and/or Its Affiliates

As of March 31, 2017, we had a total amount of \$2.0 million due from HNA and its affiliates, representing accounts receivable arising from the provision of information technology outsourcing services to HNA and its affiliates.

HNA ECOTECH PANORAMA CAYMAN CO. LTD

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF HNA ECOTECH PANORAMA CAYMAN CO. LTD

We have audited the accompanying consolidated financial statements of HNA Ecotech Panorama Cayman Co. Ltd (formerly known as BCP (Singapore) VI Cayman Financing Co. Ltd.) and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as of December 31, 2015 (Successor) and 2016 (Successor), the consolidated statements of operations, comprehensive (loss) income, and cash flows for the nine months ended December 31, 2014 (Successor), for the years ended December 31, 2015 (Successor) and 2016 (Successor), the consolidated statements of changes in equity for the years ended December 31, 2014 (Successor), 2015 (Successor) and 2016 (Successor), the consolidated statement of operations, comprehensive loss, changes in equity and cash flows for the three months ended March 31, 2014 (Predecessor) and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

The Group's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HNA Ecotech Panorama Cayman Co. Ltd and its subsidiaries as of December 31, 2015 (Successor) and 2016 (Successor), and the results of their operations and their cash flows for the nine months ended December 31, 2014 (Successor), for the years ended December 31, 2015 (Successor) and 2016 (Successor) and for the three months ended March 31, 2014 (Predecessor) in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the consolidated financial statements are presented for two periods, Predecessor and Successor, which relate to the accounting periods preceding and succeeding the completion of the business combination transaction discussed therein. Predecessor and Successor periods have been separated by a vertical line on the face of the consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under different accounting basis.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP
Beijing, the People's Republic of China
April 10, 2017

HNA ECOTECH PANORAMA CAYMAN CO. LTD

Consolidated Balance Sheets

(U.S. dollars in thousands, except share data)

	As of December 31,	
	2015	2016
	(Successor)	(Successor)
ASSETS		
Cash and cash equivalents	\$ 87,304	\$ 101,339
Restricted cash	13,965	4,163
Term deposits	193	-
Accounts and notes receivable, net of allowance for doubtful accounts of \$11,945 and \$11,019 as of December 31, 2015 and 2016, respectively	284,722	287,972
Amounts due from related parties - current	6,546	12,611
Prepaid expenses and other current assets	20,273	17,550
Deferred tax assets - current	7,245	6,789
Assets held for sale	-	8,248
Total current assets	<u>420,248</u>	<u>438,672</u>
Equity method investments	412	369
Amounts due from related parties - non-current	7,129	3,892
Property, plant and equipment, net	89,811	77,822
Land use right, net	24,306	22,419
Intangible assets, net	101,454	94,911
Goodwill	136,977	154,414
Other assets	18,937	4,207
Deferred tax assets - non-current	3,380	888
Total assets	<u>\$ 802,654</u>	<u>\$ 797,594</u>

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Balance Sheets (Continued)
(U.S. dollars in thousands, except share data)

	As of December 31,	
	2015	2016
	(Successor)	(Successor)
LIABILITIES AND EQUITY		
Accounts payable	\$ 3,281	\$ 3,616
Accrued expenses and other payables	132,858	124,407
Contingent acquisition consideration payable - current	5,522	7,845
Senior secured notes - current portion	-	169,362
Short-term borrowings	18,220	44,798
Income taxes payable	13,411	13,690
Other taxes payable	20,296	22,559
Deferred tax liabilities - current	3,352	2,622
Liabilities held for sale	-	762
Total current liabilities	<u>196,940</u>	<u>389,661</u>
Contingent acquisition consideration payable - non-current	3,353	6,358
Unrecognized tax benefits - non-current	969	969
Deferred tax liabilities - non-current	20,372	19,560
Senior secured notes - non-current portion	264,118	99,974
Other liabilities	1,100	1,614
Total liabilities	<u>486,852</u>	<u>518,136</u>
Shareholders' equity		
Common shares (\$0.0001 par value, 500,000,000 shares authorized, 45,243,029 shares issued and outstanding as of December 31, 2015 and 2016, respectively)	4	4
Additional paid-in capital	323,370	353,434
Statutory reserve	23,396	25,674
Accumulated deficit	(14,041)	(60,700)
Accumulated other comprehensive loss	(16,927)	(38,954)
Total shareholders' equity	<u>315,802</u>	<u>279,458</u>
Total liabilities and equity	<u>\$ 802,654</u>	<u>\$ 797,594</u>

See accompanying notes to the consolidated financial statements.

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Operations
(U.S. dollars in thousands, except share data)

	For the Three Months Ended March 31, 2014 (Predecessor)	For the Nine Months Ended December 31, 2014 (Successor)	For the Year Ended December 31, 2015 (Successor)	For the Year Ended December 31, 2016 (Successor)
Net revenues	\$ 155,764	\$ 556,791	\$ 777,306	\$ 806,061
Cost of revenues	(115,087)	(395,493)	(578,171)	(611,772)
Gross profit	40,677	161,298	199,135	194,289
Operating expenses:				
General and administrative expenses	(44,073)	(86,660)	(143,702)	(155,292)
Selling and marketing expenses	(10,964)	(32,464)	(47,778)	(47,394)
Change in fair value of contingent consideration	(699)	(362)	1,240	(698)
Total operating expenses	(55,736)	(119,486)	(190,240)	(203,384)
(Loss) income from operations	(15,059)	41,812	8,895	(9,095)
Other income (expenses)				
Interest expense	(3)	(19,194)	(24,693)	(31,443)
Interest income	676	965	755	587
Exchange gain (loss)	182	(1,632)	(687)	1,772
(Loss) gain on change in fair value of foreign currency forward contract	(84)	225	(207)	(434)
Total other income (expenses)	771	(19,636)	(24,832)	(29,518)
Net (loss) income before income tax benefit (expense)	(14,288)	22,176	(15,937)	(38,613)
Income tax benefit (expense)	750	(14,766)	(1,845)	(5,696)
Loss (income) before earnings (loss) in equity method investments	(13,538)	7,410	(17,782)	(44,309)
Earnings (loss) in equity method investments	9	(12)	(26)	(72)
Net (loss) income	\$ (13,529)	\$ 7,398	\$ (17,808)	\$ (44,381)

See accompanying notes to the consolidated financial statements.

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Comprehensive (Loss) Income
(U.S. dollars in thousands, except share data)

	For the Three Months Ended March 31, 2014 (Predecessor)	For the Nine Months Ended December 31, 2014 (Successor)	For the Year Ended December 31, 2015 (Successor)	For the Year Ended December 31, 2016 (Successor)
Net (loss) income	\$ (13,529)	\$ 7,398	\$ (17,808)	\$ (44,381)
Other comprehensive loss, net of tax:				
Change in cumulative foreign currency exchange translation adjustment	(8,545)	(1,444)	(15,483)	(22,027)
Comprehensive (loss) income	<u>\$ (22,074)</u>	<u>\$ 5,954</u>	<u>\$ (33,291)</u>	<u>\$ (66,408)</u>

See accompanying notes to the consolidated financial statements.

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Changes in Equity
(U.S. dollars in thousands, except share data)

<u>Predecessor</u>	<u>Common shares</u>		<u>Additional paid-in capital</u>	<u>Shares to be issued in connection with business acquisition</u>	<u>Statutory reserve</u>	<u>Retained earnings (Accumulated deficit)</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Total</u>	<u>Total equity</u>
	<u>Shares</u>	<u>Amount</u>							
Balance as of January 1, 2014	85,503,321	\$ 119	\$ 497,391	\$ 2,503	\$ 19,765	\$ 5,869	\$ 24,626	\$ 550,273	\$ 550,273
Issuance of common shares for business acquisition	332,222	1	2,146	(2,147)	-	-	-	-	-
Stock option exercise	-	-	1,036	-	-	-	-	1,036	1,036
Vesting of non-vested share awards	185,230	-	-	-	-	-	-	-	-
Share-based compensation	-	-	17,526	-	-	-	-	17,526	17,526
Shares issuable in connection with business acquisition	-	-	-	41	-	-	-	41	41
Cancellation of jumbo shares as a result of privatization	(3,559,949)	(5)	5	-	-	-	-	-	-
Cancellation of common shares as a result of privatization	(75,545,297)	(110)	(569,933)	-	-	-	-	(570,043)	(570,043)
Cancellation of vested restricted shares as a result of privatization	(1,097,560)	(1)	1	-	-	-	-	-	-
Cancellation of common shares as a result of conversion to restricted share units	(1,259,970)	(2)	2	-	-	-	-	-	-
Rollover of shares to HNA Ecotech Vision Cayman Co. Ltd (formerly known as HNA Ecotech Vision Cayman Co., Ltd)	(4,557,997)	(6)	(33,267)	-	-	-	-	(33,273)	(33,273)
Issuance of common shares as a result of privatization	89,078,546	242	603,074	-	-	-	-	603,316	603,316
Net loss	-	-	-	-	-	(13,529)	-	(13,529)	(13,529)
Foreign currency translation adjustments	-	-	-	-	-	-	(8,545)	(8,545)	(8,545)
Balance as of March 31, 2014	89,078,546	\$ 238	\$ 517,981	\$ 397	\$ 19,765	\$ (7,660)	\$ 16,081	\$ 546,802	\$ 546,802

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Changes in Equity(Continued)
(U.S. dollars in thousands, except share data)

<u>Successor</u>	<u>Common shares</u>		<u>Additional paid-in capital</u>	<u>Shares to be issued in connection with business acquisition</u>	<u>Statutory reserve</u>	<u>Retained earnings (Accumulated deficit)</u>	<u>Accumulated other comprehensive loss</u>	<u>Total equity</u>
	<u>Shares</u>	<u>Amount</u>						
Balance as of January 1, 2014	100	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Issuance of common shares to HNA Ecotech Vision Cayman Co. Ltd	45,242,929	4	267,009	-	-	-	-	267,013
Acquisition of Pactera Technology International Ltd.	-	-	(20,162)	397	19,765	-	-	-
Rollover shares from HNA Ecotech Vision Cayman Co. Ltd	-	-	68,405	-	-	-	-	68,405
Share-based compensation	-	-	4,258	-	-	-	-	4,258
Net income	-	-	-	-	-	7,398	-	7,398
Cash settlement of shares that were issuable in connection with business acquisition	-	-	-	(397)	-	-	-	(397)
Provision for statutory reserve	-	-	-	-	2,340	(2,340)	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(1,444)	(1,444)
Balance as of December 31, 2014	45,243,029	\$ 4	\$ 319,510	\$ -	\$ 22,105	\$ 5,058	\$ (1,444)	\$ 345,233
Share-based compensation	-	-	3,860	-	-	-	-	3,860
Net loss	-	-	-	-	-	(17,808)	-	(17,808)
Provision for statutory reserve	-	-	-	-	1,291	(1,291)	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(15,483)	(15,483)
Balance as of December 31, 2015	45,243,029	\$ 4	\$ 323,370	\$ -	\$ 23,396	\$ (14,041)	\$ (16,927)	\$ 315,802
Share-based compensation	-	-	30,064	-	-	-	-	30,064
Net loss	-	-	-	-	-	(44,381)	-	(44,381)
Provision for statutory reserve	-	-	-	-	2,278	(2,278)	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(22,027)	(22,027)
Balance as of December 31, 2016	45,243,029	\$ 4	\$ 353,434	\$ -	\$ 25,674	\$ (60,700)	\$ (38,954)	\$ 279,458

See accompanying notes to the consolidated financial statements.

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Cash Flows
(U.S. dollars in thousands)

	For the Three Months Ended March 31, 2014 (Predecessor)	For the Nine Months Ended December 31, 2014 (Successor)	For the Year Ended December 31, 2015 (Successor)	For the Year Ended December 31, 2016 (Successor)
Cash flows from operating activities:				
Net (loss) income	\$ (13,529)	\$ 7,398	\$ (17,808)	\$ (44,381)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Allowance for doubtful accounts	20	1,257	7,430	1,654
Loss on disposals of property, plant and equipment	149	215	180	152
Depreciation	3,058	9,735	12,222	11,238
Loss (gain) on change in fair value of foreign currency forward contract	84	(225)	207	434
Amortization of intangible assets	2,220	6,735	8,406	11,779
Amortization of land use right	128	418	549	524
Share-based compensation expenses	17,107	4,258	3,860	30,064
Loss (gain) on changes in fair value of contingent consideration	699	362	(1,240)	698
(Gain) loss in equity method investments	(9)	12	26	72
Changes in operating assets and liabilities:				
Accounts and notes receivable	22,939	(43,328)	(45,052)	(32,208)
Prepaid expenses and other current assets	(35,635)	34,568	1,008	3,817
Amounts due from the related parties	-	(2,313)	(4,233)	(6,065)
Other assets	1,517	(61)	1,441	1,728
Accounts payable	210	(1,750)	1,105	2
Accrued merger of equals with Vanceinfo Technologies Inc. ("MOE") related cost	(452)	(1,369)	(1,403)	(340)
Accrued privatization related cost	4,058	(4,589)	(783)	(3,345)
Accrued expenses and other payables	(26,582)	41,893	35,068	33,363
Income taxes payable	(488)	3,594	(1,346)	1,356
Other taxes payable	1,765	2,149	3,050	3,588
Deferred taxes	(2,711)	6,600	(2,067)	(579)
Other liabilities	930	677	(469)	618
Net cash (used in) provided by operating activities	(24,522)	66,236	151	14,169
Cash flows from investing activities:				
Decrease (increase) in term deposits	39,537	(14,993)	17,005	192
Decrease (increase) in restricted cash	160	(1,178)	(12,236)	9,596
Purchase of property, plant and equipment	(1,634)	(8,481)	(8,990)	(9,596)
Proceed from the sale of property, plant and equipment	-	-	18	650
Purchase of building	(3,425)	-	-	(1,203)
Capital contribution for equity method investments	-	(131)	-	(369)
Cash receipts from disposal of equity method investments	-	-	-	328
Disposal of property in relation to Huawei Project	1,952	303	-	-
Payment for business acquisitions, net of cash	(404)	-	(14,259)	217
Loan to a related party (Note 25)	-	(10,000)	-	-
Repayment of loan from a related party (Note 25)	-	-	-	5,000
Payment for acquisition of Pactera Technology International Ltd.	-	(36,221)	(1,067)	(156)
Net cash provided by (used in) investing activities	36,186	(70,701)	(19,529)	4,659

HNA ECOTECH PANORAMA CAYMAN CO. LTD
Consolidated Statements of Cash Flows (Continued)
(U.S. dollars in thousands)

	For the Three Months Ended March 31,	For the Nine Months Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,
	2014	2014	2015	2016
	(Predecessor)	(Successor)	(Successor)	(Successor)
Cash flows from financing activities:				
Proceeds from revolving credit facilities	-	-	17,661	-
Proceeds from short-term borrowings (exclude revolving credit facilities)	-	-	10,000	45,036
Repayment of revolving credit facilities	-	-	(7,823)	(7,391)
Repayment of short-term borrowings (exclude revolving credit facilities)	-	-	-	(10,000)
Repayment of senior secured cash bridge facility	-	(45,000)	-	-
Payment of interest expense for Senior Secured Notes	-	(12,100)	(22,000)	(22,000)
Proceeds from issuance of common shares under employee option plan	1,445	-	-	-
Deferred and contingent consideration paid for business acquisitions	(5,092)	(11,662)	(4,082)	(3,768)
Payment of interest expense for senior secured cash bridge facility	-	(50)	-	-
Payment of withholding tax on intercompany dividend payable	(2,222)	(1,500)	-	-
Proceeds received from HNA Ecotech Vision Cayman Co. Ltd for payment to ex-shareholders of Pactera Technology International Ltd.	37,490	-	-	-
Net cash provided by (used in) financing activities	31,621	(70,312)	(6,244)	1,877
Effect of exchange rate changes	(2,219)	(6)	(1,875)	(6,670)
Net increase (decrease) in cash and cash equivalents	41,066	(74,783)	(27,497)	14,035
Cash and cash equivalents at beginning of period	148,518	189,584	114,801	87,304
Cash and cash equivalents at end of period	\$ 189,584	\$ 114,801	\$ 87,304	\$ 101,339
Supplementary information on non-cash investing and financing activities:				
Shares issuance for business acquisition	\$ 2,147	\$ -	\$ -	\$ -
Payable for business acquisitions	\$ 24,760	\$ 13,692	\$ 8,875	\$ 14,203
Payable for property, plant and equipment	\$ 2,163	\$ 5,496	\$ 5,066	\$ 1,554
Supplementary cash flow information:				
Interest paid	\$ -	\$ 12,100	\$ 22,289	\$ 24,605
Income taxes paid	\$ 4,894	\$ 6,201	\$ 5,906	\$ 5,446

See accompanying notes to the consolidated financial statements.

HNA ECOTECH PANORAMA CAYMAN CO. LTD

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands, except share data or otherwise noted)

1. ORGANIZATION AND PRINCIPAL ACTIVITIES

BCP (Singapore) VI Cayman Financing Co. Ltd. (the "Company" or "Successor") was incorporated in the Cayman Islands on August 29, 2013, a wholly owned company of BCP (Singapore) VI Cayman Acquisition Co. Ltd. (the "Parent"), which is a company incorporated in the Cayman Islands. The Company and its subsidiaries (collectively the "Group") provide information technology outsourcing services primarily in the People's Republic of China (the "PRC"), Hong Kong, the United States of America ("U.S."), Australia, South Asia, Europe, and Japan.

On March 27, 2014 (the "Merger Date"), pursuant to the agreement and plan of merger dated as of October 17, 2013 among Pactera Technology International Ltd. ("Pactera" or "Predecessor", formerly known as Hisoft Technology International Limited, "Hisoft"), Parent, the Company and BCP (Singapore) VI Cayman Merger Co. Ltd. (the "Merger Sub") (the "Merger Agreement"), Merger Sub merged with and into Pactera with Pactera as the surviving entity in a transaction hereinafter referred to as the Merger. As a result of the Merger, Pactera survived as a directly wholly owned subsidiary of the Company.

Pactera is considered to be Predecessor of the Company as the Company succeeded to substantially all of the business of Pactera and the Company's own operations prior to the succession were insignificant relative to the operations assumed or acquired. Consequently, the audited consolidated financial statements presented for Successor include the audited consolidated statements of operations, comprehensive (loss) income, and cash flows for the nine months ended December 31, 2014, for the years ended December 31, 2015 and 2016, the consolidated statements of changes in equity for the years ended December 31, 2015 and 2016 and the audited consolidated balance sheet as of December 31, 2015 and 2016, while the audited consolidated financial statements presented for Predecessor include the audited consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the three months ended March 31, 2014.

Predecessor and Successor periods have been separated by a vertical line on the face of the audited consolidated financial statements to highlight the fact that the financial information for such periods has been prepared under different accounting basis.

Since the date of the change in basis of accounting was March 27, 2014, the consolidated statements of operations, comprehensive loss, changes in equity and cash flows of Predecessor are presented through March 31, 2014 with no adjustments to the historical basis since adjustments to the amounts required for the four days from March 28, 2014 to March 31, 2014 would be insignificant, except for the cash proceeds of \$275,000 from the Senior Secured Notes (as defined in Note 18), cash proceeds of \$45,000 from Senior Secured Cash Bridge Facility, capital injection from the shareholder of \$267,014 and cash payments for the financing related fee of \$16,971 and payment for business acquisition of \$532,553 in Successor's cash flows for the four days from March 28, 2014 to March 31, 2014.

On August 8, 2016, HNA Ecotech Group Co., Ltd ("HNA"), the Parent, BCP (Singapore) VI Cayman PRC Co. Ltd. ("BCP PRC") and certain other shareholders of the Parent entered into a share purchase agreement that provided for the acquisition by HNA or any of its affiliates of all or substantially all of the outstanding shares of the Parent. On January 3, 2017, the acquisition was completed and Great Paeon Investment Co., Limited ("Great Paeon"), an indirect wholly owned subsidiary of HNA, acquired all of the outstanding shares, vested stock options and vested nonvested share units of the Parent. As a result, a change of control of the Company has occurred.

1. ORGANIZATION AND PRINCIPAL ACTIVITIES - continued

The Company was renamed to HNA Ecotech Panorama Cayman Co. Ltd and the Parent was renamed to HNA Ecotech Vision Cayman Co. Ltd on January 10, 2017.

The Company and its subsidiaries (collectively the "Group") provide information technology outsourcing services primarily in the People's Republic of China (the "PRC"), Hong Kong, the United States of America ("U.S."), Australia, South Asia, Europe and Japan.

As of December 31, 2016, the Company's subsidiaries are as follows:

Subsidiaries

Subsidiaries	Later of date of incorporation or acquisition	Place of incorporation	Percentage of legal ownership
Pactera Technology International Ltd. ("Pactera")	March 27, 2014	Cayman Islands	100%
Pactera Technology Japan Co., Ltd. ("Pactera Japan")	March 27, 2014	Japan	100%
DMK International, Inc. ("DMK International")	March 27, 2014	U.S.	100%
Dalian Pactera Technology Limited ("Pactera Dalian") (formerly known as HiSoft Technology (Dalian) Co., Ltd.)	March 27, 2014	PRC	100%
Pactera Systems (Hong Kong) Limited ("Pactera Systems Hong Kong")	March 27, 2014	Hong Kong	100%
Shenzhen Pactera Systems Limited ("Pactera Shenzhen Systems")	March 27, 2014	PRC	100%
Beijing Pactera Services Limited ("HiSoft Beijing")	March 27, 2014	PRC	100%
Pactera Technologies NA, Inc. ("Pactera NA")	March 27, 2014	U.S.	100%
Chengdu Pactera Technology Limited ("Pactera Chengdu") (formerly known as HiSoft Technology (Chengdu) Co., Ltd.)	March 27, 2014	PRC	100%
Pactera Singapore Pte. Ltd. ("Pactera Singapore") (formerly known as Hisoft Technology (Singapore) Pte. Ltd.)	March 27, 2014	Singapore	100%
Wuxi Pactera Technology Limited ("Pactera Wuxi") (formerly known as Wuxi HiSoft Services Limited)	March 27, 2014	PRC	100%
Wuxi Pactera Technology Training Limited ("Wuxi Training Center") (formerly known as Wuxi Hisoft Technology Training Co., Ltd.)	March 27, 2014	PRC	100%
Beijing Horizon Information & Technology Co., Ltd. ("Horizon Information")	March 27, 2014	PRC	100%
Beijing Pactera Jinxin Technology Limited ("Pactera Jinxin") (formerly known as HiSoft Jinxin Technology (Beijing) Co., Ltd.)	March 27, 2014	PRC	100%
NouvEON Technology Partners, Inc. ("NouvEON")	March 27, 2014	U.S.	100%
Shanghai HURO Digital Technology Co., Ltd. ("HURO")	March 27, 2014	PRC	100%
Pactera Holdings Spain, S.L. (formerly known as Logoscript International S.L.) and its subsidiaries ("Pactera Spain")	March 27, 2014	Spain	100%
Beijing Pactera Glorycube Technology Limited ("Glory") (formerly known as Beijing GloryCube Technology Co., Ltd.)	March 27, 2014	PRC	100%

1. **ORGANIZATION AND PRINCIPAL ACTIVITIES** - continued

As of December 31, 2016, the Company's subsidiaries are as follows: - continued

Subsidiaries - continued

Subsidiaries	Later of date of incorporation or acquisition	Place of incorporation	Percentage of legal ownership
Pactera Australia Holdings Pty Limited ("Bearing Point") (formerly known as Bearing Point Holdings Pty. Limited and its subsidiaries)	March 27, 2014	Australia	100%
Shenzhen Pactera Information Limited ("Pactera Shenzhen Information") (formerly known as HiSoft Technology (Shenzhen) Co., Ltd.)	March 27, 2014	PRC	100%
VanceInfo Technologies Inc. ("VanceInfo")	March 27, 2014	Cayman Islands	100%
Pactera Technology Limited ("Pactera Beijing") (formerly known as VanceInfo Creative Software Technology Limited)	March 27, 2014	PRC	100%
Pactera Technology Limited ("Pactera BVI")	March 27, 2014	BVI	100 %
Pactera Technologies Inc. ("Pactera US")	March 27, 2014	U.S.	100%
Pactera (Hong Kong) Limited ("Pactera Hong Kong")	March 27, 2014	Hong Kong	100%
Shanghai Pactera Technology Limited ("Pactera Shanghai Technology") (formerly known as Shanghai VanceInfo Technologies Limited)	March 27, 2014	PRC	100%
VanceInfo Technologies Limited ("VanceInfo Tianjin")	March 27, 2014	PRC	100%
Shanghai Pactera Software Technology Limited ("Pactera Shanghai ") (formerly known as Shanghai VanceInfo Creative Software Technology Limited)	March 27, 2014	PRC	100%
Pactera Malaysia Inc. Sdn. Bhd. ("Pactera Malaysia")	March 27, 2014	Malaysia	100%
Shenzhen Pactera Technology Limited ("Pactera Shenzhen") (formerly known as Shenzhen VanceInfo Creative Software Technology Limited)	March 27, 2014	PRC	100%
Nanjing Pactera Technology Limited ("Pactera Nanjing") (formerly known as Nanjing VanceInfo Creative Software Technology Limited)	March 27, 2014	PRC	100%
TP Teleservices Limited ("TP Teleservices")	March 27, 2014	Hong Kong	100%
TP (Hong Kong) Limited ("TP Hong Kong")	March 27, 2014	Hong Kong	100%
TP Consultants Limited ("TP Consultants")	March 27, 2014	Hong Kong	100%
TP (Taiwan) Limited ("TP Taiwan")	March 27, 2014	Hong Kong	100%
TP Software Technology (Shanghai) Co., Ltd. ("TP Shanghai")	March 27, 2014	PRC	100%

1. **ORGANIZATION AND PRINCIPAL ACTIVITIES** - continued

As of December 31, 2016, the Company's subsidiaries are as follows: - continued

Subsidiaries - continued

Subsidiaries	Later of date of incorporation or acquisition	Place of incorporation	Percentage of legal ownership
Pactera Financial Service Limited ("Pactera Financial Service") (formerly named "Link Result Limited")	March 27, 2014	Hong Kong	100%
Pactera Data Service (Shanghai) Limited ("Pactera Data") (formerly known as VanceInfo Data Service (Shanghai) Limited)	March 27, 2014	PRC	100%
Beijing Viatt Information Technology Co., Ltd. ("Beijing Viatt")	March 27, 2014	PRC	100%
Lifewood Technology Limited ("Lifewood Technology")	March 27, 2014	Hong Kong	100%
Lifewood Data Technology Limited ("Lifewood Data")	March 27, 2014	Hong Kong	100%
Lifewood Data Technology (Dongguan) Limited ("Lifewood Dongguan")	March 27, 2014	PRC	100%
Pactera Technologies Australia Pty. Ltd. ("Pactera Australia") (formerly known as VanceInfo Technologies Australia Pty. Ltd.)	March 27, 2014	Australia	100%
Beijing Pactera DPC Technology Limited ("Beijing DPC") (formerly known as Beijing Data Pioneer Information Technology Co., Ltd.)	March 27, 2014	PRC	100%
Beijing Kang Pu Wei Century Information Technology Co., Ltd. ("Beijing KPW")	March 27, 2014	PRC	100%
Pactera Financial Solutions Limited ("Pactera Financial Solutions")	March 27, 2014	BVI	100%
Beijing Sunwin Corporation Limited ("Sunwin") ¹	March 27, 2014	PRC	100%
Beijing Pactera Airsoft Technology Limited ("Pactera Airsoft") (formerly known as Beijing VanceInfo Airsoft Technology Ltd.)	March 27, 2014	PRC	100%
Pactera Technology (Mauritius) Limited ("Pactera Mauritius")	March 27, 2014	Mauritius	100%
Pactera Switzerland AG ("Pactera Switzerland")	March 27, 2014	Switzerland	100%
Pactera Hungary Kft. ("Pactera Hungary")	March 27, 2014	Hungary	100%
Shanghai Pactera Cloud Computing Limited ("Pactera Cloud Computing")	May 27, 2014	PRC	100%
Nanjing Pactera Information Systems Limited ("Nanjing Pactera Information")	August 21, 2014	PRC	100%
Pactera Technology Italy S.R.L. ("Pactera Italy")	November 3, 2014	Italy	100%
Beijing Pactera Jinxin Information and Technology Services Co., Ltd. ("Pactera Jinxin Information")	May 8, 2015	PRC	100%
Shenzhen Pactera Jinxin Technology Limited ("Shenzhen Jinxin")	August 26, 2015	PRC	100%
Pactera Consulting Japan Co., Ltd. ("Pactera Consulting")	September 4, 2015	Japan	100%
Blue Fountain Media Inc. ("Blue Fountain Media")	January 1, 2016	US	100%
Pactera Technologies India Private Limited ("Pactera India")	January 14, 2016	India	100%

1. Sunwin was disposed to a third party on January 4, 2017, as described in Note 8 and 26.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The consolidated financial statements of the Group have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP").

Basis of consolidation

The consolidated financial statements include the financial statements of the Group and all its subsidiaries. All inter-company transactions and balances have been eliminated upon consolidation.

Use of estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods and the accompanying notes. Significant accounting estimates reflected in the consolidated financial statements include, but are not limited to, revenue recognition, provision for income taxes, share-based compensation, impairment of goodwill and indefinite-lived intangible assets, allowance for doubtful accounts, purchase price allocation in business combinations, contingent consideration, valuation allowance of deferred tax assets, useful life of property, plant and equipment, and economic life of intangible assets. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments which are unrestricted as to withdrawal or use and have original maturities of three months or less when purchased.

Term deposits

The Group's term deposits are classified as held-to-maturity and carried at amortized cost. The term deposits mature within one year from the contractual dates and are subject to penalty for early redemption before their maturities.

Allowance for doubtful accounts

Accounts receivables represent those receivables derived in the ordinary course of business. Notes receivables are bank accepted and commercial accepted drafts related to trade receivables of revenue with a maturity less than six months. The Group maintains an allowance for doubtful accounts for estimated incurred losses on uncollected accounts receivables and notes receivables. Management considers the following factors when determining the collectability of specific accounts: credibility of the customers, aging of the receivables, historical loss experience and other specific circumstances related to the accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Held for sale

Asset and liability groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. The asset and liability groups are classified as held for sale when the following conditions have been met: management has approved the plan to sell; assets or liabilities are available for immediate sale; assets or liabilities are actively being marketed; sale is probable within one year; price is reasonable in the market and it is unlikely that there will be significant changes in the assets or liabilities to be sold or a withdrawal to the plan to sell. Asset groups classified as held for sale are reported as current assets in the consolidated balance sheets at the lower of their carrying amount and fair value less costs to sell. Long-lived assets classified as held for sale are no longer depreciated or amortized. When the held for sale accounting treatment requires an impairment charge for the difference between the carrying amounts and fair value, such impairment is reflected on the consolidated statements of operations as impairment for the assets held for sale.

Concentration risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and cash equivalents, restricted cash, term deposits and accounts and notes receivable. The Group places its cash and cash equivalents, restricted cash and term deposits with authorized financial institutions, which refer to (i) banks incorporated in China, which are all authorized to operate banking business by China Banking Regulatory Commission and other relevant agencies, and (ii) overseas financial institutions regulated by competent regulatory authorities in their relevant jurisdictions such as Hong Kong. The credit risk on cash and cash equivalent, restricted cash and term deposits is limited because the counterparties are banks with high credit ratings. The Group conducts credit evaluations of its clients and generally does not require collateral or other security from them. The maximum exposure to credit risk is represented by their carrying amounts in the consolidated balance sheets. There was no customer who accounted for 10% or more of accounts receivable or net revenue as of December 31, 2015 and 2016, respectively.

Property, plant and equipment, net

Property, plant and equipment, net, are stated at cost less accumulated depreciation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building	30 years
Furniture, fixtures and electronic equipment & software	3-5 years
Transportation equipment	5 years
Leasehold improvements	Shorter of useful life of the asset or the lease term

Land use right

Generally, land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may grant the right to the enterprise to use the land for a specified period of time. Land use right is stated at cost less accumulated amortization. Amortization is provided over the contractual term of the land use right on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets

Acquired intangible assets, other than goodwill, are initially measured and recorded at their fair values. Subsequently, the indefinite-lived trade name is stated at cost less impairment loss and the acquired definite-lived intangible assets are stated at cost less accumulated amortization and impairment loss. Certain non-compete agreement and software technology are amortized using the straight-line method and other acquired intangible assets are amortized using the estimated attrition pattern. The estimated economic lives are as follows:

Customer relationship	3 years - 7.75 years
Trade name	4.75 years - Indefinite
Software technology	2.61 years - 4.75 years
Contract backlog	1 year - 3.75 years
Non-compete agreement	2 years - 4.75 years

Impairment of long-lived assets with definite lives

The Group evaluates the recoverability of long-lived assets, including property, plant and equipment and intangible assets with determinable useful lives whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. The Group measures the carrying amount of a long-lived asset against the estimated undiscounted future cash flows associated with it. Impairment exists when the sum of the expected future net cash flows is less than the carrying value of the asset being evaluated. Impairment loss is calculated as the amount by which the carrying value of the asset exceeds its fair value. Fair value is estimated based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Group to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Impairment of goodwill and indefinite-lived intangible assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but tested for impairment annually or more frequently if events and circumstances indicate that they might be impaired.

The excess of the purchase price over the fair value of net assets acquired is recorded on the consolidated balance sheets as goodwill. Absent from any impairment indicators, the Group performs its annual impairment test on December 31st each year, following a two-step process. The first step compares the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of each reporting unit exceeds its carrying amount, goodwill is not considered to be impaired and the second step will not be required. If the carrying amount of a reporting unit exceeds its fair value, the second step compares the implied fair value of goodwill to the carrying value of a reporting unit's goodwill. The implied fair value of goodwill is determined in a manner similar to accounting for a business combination with the allocation of the assessed fair value determined in the first step to the assets and liabilities of the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to the assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized for any excess in the carrying value of goodwill over the implied fair value of goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment of goodwill and indefinite-lived intangible assets - continued

The Group has determined that certain trade names of the Group do not have determinable useful lives. Consequently, the carrying amounts of these trade names are not subject to amortization but are tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired. Such impairment test compares the fair values of assets with their carrying value amounts and an impairment loss is recognized if and when the carrying amounts exceed the fair values.

The estimates of fair values of intangible assets not subject to amortization are determined using various discounted cash flow valuation methodologies. Significant assumptions are inherent in this process, including estimates of discount rates.

Revenue recognition

The Group enters into contractual sales arrangements related to its technology outsourcing services. For each contract, revenues are recognized in accordance with an authoritative pronouncement regarding revenue recognition issued by Financial Accounting Standards Board ("FASB") and when all of the following criteria are met: persuasive evidence of sales arrangement exists; delivery has occurred or services have been rendered; the price is fixed or determinable; and collectability is reasonably assured.

Arrangements for technology outsourcing services are either on a time-and-materials or fixed-price basis.

Revenues from time-and-materials contracts are recognized as billable services are rendered, assuming all other basic revenue recognition criteria are met.

Revenues from fixed-price contracts are recognized using the proportional performance method as determined by the proportional relation of the contract costs incurred to date relative to the estimated total contract costs at completion. Estimated contract costs are obtained from budgets that are reviewed monthly and revised as necessary. The Group reviews the estimated revenues and estimated costs on each project at the end of each reporting period. Any revisions to existing estimates are made when required by members of management having the relevant authority. As part of the review process, management regularly compares and analyzes the actual costs incurred and the estimate of costs to complete the projects to the total estimated costs and the total contract price. Management makes revisions to existing estimates as needed based on the analysis performed and with proper level of approval in the period in which changes become known. As a Company policy, provisions for estimated losses on such engagements will be made during the period in which a loss becomes probable and can be reasonably estimated.

Reimbursable out-of-pocket expenses and material costs are recognized as revenues when billed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition - continued

Details of net revenues breakdown by contract type for the periods presented were as follows:

	For the Three Months Ended March 31,	For the Nine Months Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,
	2014	2014	2015	2016
	(Predecessor)	(Successor)	(Successor)	(Successor)
Time-and-materials	\$ 128,745	\$ 453,012	\$ 648,128	\$ 670,046
Fixed-price	27,019	103,779	129,178	136,015
Total	<u>\$ 155,764</u>	<u>\$ 556,791</u>	<u>\$ 777,306</u>	<u>\$ 806,061</u>

Value-added tax ("VAT")

Since 2012, a pilot program transitioning specified industries from being subject to business tax to VAT was formally commenced in certain provinces and subsequently expanded nationwide in 2013. As a result, since August 1, 2013, most of the Group's PRC subsidiaries have been subject to VAT at a rate of either 6% or 3%. However, before May 1, 2016, some of the Company's PRC subsidiaries had revenues which were still subject to business tax. Starting from May 1, 2016, all of the Company's PRC subsidiaries' revenues are subject to VAT at the rate of 3%, 6% or 11%. Some of the Group's PRC subsidiaries are subject to value-added tax at a rate of 17% on revenues from deemed product sales and services.

The VAT is paid after deducting input VAT on purchases. Output VAT is reported as a deduction to revenue and the net VAT balance between input VAT and output VAT is reflected under other taxes payable or other taxes receivable.

Business tax

Before May 1, 2016, some of the Group's PRC subsidiaries were subject to a business tax of 5% and related surcharges on the revenues earned from providing services. The business tax is recorded as a reduction in revenues when incurred, and the outstanding balance has been recorded under other taxes payable. Starting from May 1, 2016, all of the Company's PRC subsidiaries' revenues are no longer subject to business tax.

Government subsidies

Government subsidies mainly represent amounts granted by local government authorities as an incentive for companies to promote development of the local technology industry. The Group receives government subsidies related to government sponsored projects and records such government subsidies as a liability when it is received. The Group records government subsidies as deductions of the related expenses when there is no further performance obligation. Total government subsidies of Predecessor for the three months ended March 31, 2014 amounted to \$1,347; total government subsidies of Successor for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016 amounted to \$9,120, \$5,403 and \$7,186, respectively. These were included in general and administrative expenses and cost of revenues.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the lease periods.

Income taxes

Current income taxes are provided for in accordance with the laws of the relevant tax authorities. Deferred income taxes are recognized when temporary differences exist between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements. Net operating loss carry forwards and credits are applied using enacted statutory tax rates applicable to future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more-likely-than-not that a portion of or all of the deferred tax assets will not be realized. The components of the deferred tax assets and liabilities are individually classified as current and non-current based on their characteristics. The impact of an uncertain income tax position on the income tax return is recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant tax authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. Interest and penalties on income taxes will be classified as a component of the provisions for income taxes.

Foreign currency translation

The functional and reporting currency of the Group is the United States dollar ("U.S. dollar").

The financial records of the Company's subsidiaries located in the PRC, the U.S., British Virgin Islands, Japan, Hong Kong, Singapore, Australia, Spain, Italy, Malaysia, Mauritius, Switzerland, Hungary and India are maintained in their local currencies, the Renminbi ("RMB"), U.S. dollar, Japanese Yen ("Yen"), Hong Kong dollar ("HK\$"), Singapore dollar ("S\$"), Australian dollar ("AU\$"), Euro ("Euro"), Ringgit ("MYR"), Mauritian rupee ("MUR"), Swiss franc ("CHF"), Hungary forint ("HUF") and Indian Rupee ("Rs") respectively, which are also the functional currencies of these entities.

Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the rates of exchange prevailing at the balance sheet date.

Transactions in currencies other than the functional currency during the year are converted into functional currency at the applicable rates of exchange prevailing when the transactions occurred. Foreign currency exchange gain of Predecessor for the three months ended March 31, 2014 was \$182; foreign currency exchange loss of Successor for the nine months ended December 31, 2014 and the year ended December 31, 2015 were \$1,632 and \$687, respectively; and foreign currency exchange gain of Successor for the year ended December 31, 2016 was \$1,772.

The entities with functional currency other than U.S. dollar translate their operating results and financial position into the U.S. dollar, the Group's reporting currency. Assets and liabilities are translated using the exchange rates in effect on the balance sheet date. Equity amounts are translated at historical exchange rates. Revenues, expenses, gains and losses are translated using the average rate for the year. Translation adjustments are reported as foreign currency exchange translation adjustments and are shown as a separate component of other comprehensive (loss) income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Comprehensive (loss) income

Comprehensive (loss) income for the periods includes net (loss) income and foreign currency exchange translation adjustments and is reported in the consolidated statements of comprehensive (loss) income.

Financial instruments

Financial instruments consist of cash and cash equivalents, restricted cash, term deposits, accounts and notes receivable, accounts payable and Senior Secured Notes.

The carrying values of cash and cash equivalents, restricted cash, term deposits, accounts and notes receivable and accounts payable approximate their fair values due to the short-term maturities. The carrying value of the long-term fixed-rate Senior Secured Notes represents its principle amount less unamortized debt issuance cost. The fair value of the long-term fixed-rate Senior Secured Notes is based on quoted market prices.

Fair value

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Group considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Authoritative literature provides a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset or liability categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement as follows:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Fair value of contingent consideration is discussed in Note 19.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Share-based compensation

Share-based payment transactions with employees, such as stock options, are measured based on the grant date fair value of the equity instrument. The Group recognizes the compensation costs, net of expected forfeitures, using the graded vesting method over the requisite service period of the award, which is generally the vesting period of the award. The estimate of forfeitures will be adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment in the period of change and will also impact the amount of stock compensation expense to be recognized in future periods. For the options or similar instruments on shares require cash settlement or permit the employees to elect either cash or share settlement, the award is classified as a liability. For awards where the vesting is subject to certain events or performance condition, compensation expense will be recorded only when such event occurs or performance condition is met, provided that relevant vesting schedule (if any) is also satisfied.

Business combinations

Business combinations are recorded using the acquisition method of accounting. The assets acquired, the liabilities assumed, and any non-controlling interest of the acquiree at the acquisition date, if any, are measured at their fair values as of that date. Goodwill is recognized and measured as the excess of the total consideration transferred plus the fair value of any non-controlling interest of the acquiree, if any, at the acquisition date over the fair values of the identifiable net assets acquired.

Common forms of the consideration made in acquisitions include cash and common equity instruments. Consideration transferred in a business acquisition is measured at the fair value as of the date of acquisition.

Where the consideration in an acquisition includes contingent consideration the payment of which depends on the achievement of certain specified post-acquisition conditions, the contingent consideration is recognized and measured at its fair value as of the date of acquisition and recorded as a liability and subsequently carried at fair value with changes in fair value reflected in the consolidated statements of operations.

Recent accounting pronouncements adopted

In April 2015, the FASB issued a new pronouncement which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheets as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Accounting Standard Update (“ASU”).

For non-public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements adopted - continued

The amendments should be applied on a retrospective basis, wherein the balance sheets of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. These disclosures include the nature of and reason for the change in accounting principle, the transition method, a description of the prior-period information that has been retrospectively adjusted, and the effect of the change on the financial statement line items (i.e., debt issuance cost asset and the debt liability).

The effects of this pronouncement have been reflected in the consolidated financial statements. As a result of adopting the new guidance related to the presentation of debt issuance costs, the Company reclassified debt issuance costs related to the Senior Secured Notes (as disclosed in Note 18) and revolving credit facilities from other assets to Senior Secured Notes and short-term borrowings, as a deduction to the carrying amount of the Senior Secured Notes and short-term borrowings in the consolidated balance sheets as of December 31, 2015 and 2016, respectively. The Company has retrospectively adjusted to reduce Senior Secured Notes by \$10.9 million, short-term borrowings by \$1.4 million and other assets by \$12.3 million, respectively on its consolidated balance sheet as of December 31, 2015.

Recent accounting pronouncements not yet adopted

In May 2014, the FASB issued a new pronouncement in ASU No. 2014-09, which affects any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. This ASU also supersedes some cost guidance included in Subtopic 605-35, Revenue Recognition—Construction-Type and Production-Type Contracts. In addition, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer (e.g., assets within the scope of Topic 360, Property, Plant, and Equipment, and intangible assets within the scope of Topic 350, Intangibles—Goodwill and Other) are amended to be consistent with the guidance on recognition and measurement (including the constraint on revenue) in this ASU.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

An entity should apply the amendments in this ASU using one of the following two methods:

1. Retrospectively to each prior reporting period presented and the entity may elect any of the following practical expedients:
 - For completed contracts, an entity need not restate contracts that begin and end within the same annual reporting period.
 - For completed contracts that have variable consideration, an entity may use the transaction price at the date the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.
 - For all reporting periods presented before the date of initial application, an entity need not disclose the amount of the transaction price allocated to remaining performance obligations and an explanation of when the entity expects to recognize that amount as revenue.
2. Retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. If an entity elects this transition method it also should provide the additional disclosures in reporting periods that include the date of initial application of:
 - The amount by which each financial statement line item is affected in the current reporting period by the application of this ASU as compared to the guidance that was in effect before the change.
 - An explanation of the reasons for significant changes.

For nonpublic entities, the ASU is effective for annual reporting periods beginning after December 15, 2017, and interim reporting periods within annual reporting periods beginning after December 15, 2018. Nonpublic entities may also elect to apply the ASU as of (1) the same effective date as that for public entities (annual reporting periods beginning after December 15, 2016, including interim periods), (2) annual periods beginning after December 15, 2016 (excluding interim reporting periods), or (3) annual periods beginning after December 15, 2017 (including interim reporting periods).

In August 2015, the FASB issued a new pronouncement, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in this ASU defer the effective date of ASU No. 2014-09 for all entities by one year. Non-public entities should apply the guidance in ASU No. 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Non-public entities may apply the guidance in ASU No. 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU No. 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU No. 2014-09.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In February 2016, the FASB issued a new lease accounting guidance in ASU No. 2016-02, Leases. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted for all nonpublic business entities upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In March 2016, the FASB issued a new pronouncement which relates to when another party, along with the entity, is involved in providing goods or service to a customer. Topic 606 Revenue from Contracts with Customers requires an entity to determine whether the nature of its promise is to provide that goods or service to the customer (i.e., the entity is a principal) or to arrange for the goods or service to be provided to the customer by the other party (i.e., the entity is an agent).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

The amendments are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations by clarifying the following:

- An entity determines whether it is a principal or an agent for each specified good or service promised to a customer.
- An entity determines the nature of each specified good or service (e.g., whether it is goods, service, or a right to goods or service).
- When another entity is involved in providing goods or services to a customer, an entity that is a principal obtains control of: (a) goods or another asset from the other party that it then transfers to the customer; (b) a right to a service that will be performed by another party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf; or (c) goods or service from the other party that it combines with other goods or services to provide the specified goods or service to the customer.
- The purpose of the indicators in paragraph 606-10-55-39 is to support or assist in the assessment of control. The amendments in paragraph 606-10-55-39A clarify that the indicators may be more or less relevant to the control assessment and that one or more indicators may be more or less persuasive to the control assessment, depending on the facts and circumstances.

The amendments amend certain existing illustrative examples and add additional illustrative examples to assist in the application of the guidance. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In March 2016, the FASB issued a new pronouncement which is intended to improve the accounting for employee share-based payments and affect all organizations that issue share based payment awards to their employees.

Several aspects of the accounting for share-based payment award transactions are simplified, including:

- (a) An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur;
- (b) cash paid by an employer when directly withholding shares for tax withholding purposes should be classified as a financing activity;
- (c) A nonpublic entity can make an accounting policy election to apply a practical expedient to estimate the expected term for all awards with performance or service conditions that meet certain conditions;
- (d) A nonpublic entity can make a one-time accounting policy election to switch from measuring all liability-classified awards at fair value to intrinsic value.

For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted.

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In May 2016, the FASB issued a new pronouncement which provides clarifying guidance in certain narrow areas and add some practical expedients as discussed below.

The amendments clarify the objective of the collectability criterion in revenue recognition. The objective of this assessment is to determine whether the contract is valid and represents a substantive transaction on the basis of whether a customer has the ability and intention to pay the promised consideration in exchange for the goods or services that will be transferred to the customer. The amendments also add a new criterion to paragraph 606-10-25-7 to clarify when revenue would be recognized for a contract that fails to meet the criteria in revenue recognition. That criterion allows an entity to recognize revenue in the amount of consideration received when the entity has transferred control of the goods or services, the entity has stopped transferring goods or services (if applicable) and has no obligation under the contract to transfer additional goods or services, and the consideration received from the customer is nonrefundable.

The amendments permit an entity, as an accounting policy election, to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.

The amendments specify that the measurement date for noncash consideration is contract inception. The amendments also clarify that the variable consideration guidance applies only to variability resulting from reasons other than the form of the consideration.

The amendments provide a practical expedient that permits an entity to reflect the aggregate effect of all modifications that occur before the beginning of the earliest period presented when identifying the satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

The amendments clarify that a completed contract for purposes of transition is a contract for which all (or substantially all) of the revenue was recognized under legacy GAAP before the date of initial application. Accounting for elements of a contract that do not affect revenue under legacy GAAP are irrelevant to the assessment of whether a contract is complete. In addition, the amendments permit an entity to apply the modified retrospective transition method either to all contracts or only to contracts that are not completed contracts.

The amendments clarify that an entity that retrospectively applies the guidance in Topic 606 to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption. However, an entity is still required to disclose the effect of the changes on any prior periods retrospectively adjusted.

The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606).

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

In August 2016, the FASB issued a new pronouncement ASU 2016-15, which amends the guidance in ASC 230 on the classification of certain cash receipts and payments in the statement of cash flows. The primary purpose of the ASU is to reduce the diversity in practice that has resulted from the lack of consistent principles on this topic. The ASU's amendments add or clarify guidance on eight cash flow issues:

- Debt prepayment or debt extinguishment costs.
- Settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing.
- Contingent consideration payments made after a business combination.
- Proceeds from the settlement of insurance claims.
- Proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies.
- Distributions received from equity method investees.
- Beneficial interests in securitization transactions.
- Separately identifiable cash flows and application of the predominance principle.

For nonpublic business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for all entities. Entities must apply the guidance retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable.

The Group is in the process of evaluating the impact of this pronouncement to its consolidated financial statements.

In November 2016, the FASB issued a new pronouncement, ASU 2016-18, which amends ASC 230 to add or clarify guidance on the classification and presentation of restricted cash in the statement of cash flows. Key requirements of the ASU are as follows:

- An entity should include in its cash and cash-equivalent balances in the statement of cash flows those amounts that are deemed to be restricted cash and restricted cash equivalents. The ASU does not define the terms "restricted cash" and "restricted cash equivalents", but states that an entity should continue to provide appropriate disclosures about its accounting policies pertaining to restricted cash in accordance with other GAAP. The ASU also states that any change in accounting policy will need to be assessed under ASC 250.
- A reconciliation between the statement of financial position and the statement of cash flows must be disclosed when the statement of financial position includes more than one line item for cash, cash equivalents, restricted cash, and restricted cash equivalents.

- Changes in restricted cash and restricted cash equivalents that result from transfers between cash, cash equivalents, and restricted cash and restricted cash equivalents should not be presented as cash flow activities in the statement of cash flows.
- An entity with a material balance of amounts generally described as restricted cash and restricted cash equivalents must disclose information about the nature of the restrictions.

For nonpublic business entities, the amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Recent accounting pronouncements not yet adopted - continued

The Group does not expect the adoption of this pronouncement will have significant impact on its consolidated financial statements.

In January 2017, the FASB issued a new pronouncement, ASU 2017-01, which clarifies the definition of a business in ASC 805. The amendments in the ASU are intended to make application of the guidance more consistent and cost-efficient.

The ASU narrows the definition of a business and provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset or a business. Specifically, the ASU:

- Provides a “screen” for determining when a set is not a business.
- Specifies that if the screen’s threshold is not met, a set cannot be considered a business unless it includes an input and a substantive process that together significantly contribute to the ability to create outputs.
- Narrows the definition of the term “output” to be consistent with the description of outputs in ASC 606.

For nonpublic entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this ASU should be applied prospectively on or after the effective date.

The Group does not expect the adoption of this pronouncement will have significant impact on its consolidated financial statements.

In January 2017, the FASB issued a new pronouncement, ASU 2017-04, which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under the ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

In addition, the ASU clarifies the requirements for excluding and allocating foreign currency translation adjustments to reporting units in connection with an entity’s testing of reporting units for goodwill impairment. The ASU also clarifies that an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable.

Nonpublic business entities should adopt the guidance for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017.

The Group does not expect the adoption of this pronouncement will have significant impact on its consolidated financial statements.

3. ACQUISITIONS

(i) Predecessor's acquisition of Innoveo

On January 1, 2014, Predecessor acquired substantially all of the business and assets of Innoveo Solution AG, Switzerland ("Innoveo"), a Switzerland-based software solution company, with consideration of:

- Cash consideration of \$0.4 million paid upon closing; and
- Contingent consideration of \$2.0 million which is subject to future performance measures of the Innoveo from January 1, 2014 to December 31, 2017.

(ii) Successor's acquisition of Pactera

On March 27, 2014, the Company completed the Merger between the Merger Sub, a company wholly owned by the Group, and Pactera, with Pactera continuing as the surviving company and a wholly owned subsidiary of the Group after the Merger. The Merger was accounted for as a business combination using the purchase method with the Company treated as the accounting acquirer.

The total consideration was calculated based on the fair value of Pactera common shares (including common shares represented by American Depositary Shares ("ADS")), vested stock options, restricted shares ("RSs") and restricted share units ("RSUs") purchased in connection with the Merger as well as the fair value of Pactera rollover common shares (including rollover common shares represented by ADS) and rollover stock options, RSs and RSUs.

The total consideration was calculated below:

Purchase of common shares

Number of shares cancelled		75,545,297
Number of shares rolled over		4,557,997
		80,103,294
<i>Per share consideration for common shares</i>	<i>\$</i>	<i>7.30</i>
Consideration for common shares	\$	584,754
Fair value of vested Pactera stock options, RSs and RSUs	\$	35,131
Purchase of vested Pactera stock options, RSs and RSUs	\$	18,562
Total consideration	\$	638,447

On March 26, 2014, the Company issued a total of 45,242,929 common shares, par value \$0.0001 each, to Parent in consideration for a capital contribution from Parent of \$267.0 million and the receipt of certain rollover shares of Pactera. The capital contribution was used to finance a portion of the merger consideration, including the repurchase of a portion of Pactera's outstanding common shares (including common shares represented by ADS) and Pactera stock options, RSs and RSUs. A total of \$229.5 million of the capital contribution was paid out at closing on March 27, 2014, \$36.2 million of the capital contribution was paid out during the nine months ended December 31, 2014, and \$1.1 million and \$0.2 million of the capital contribution was further paid out during the year ended December 31, 2015 and 2016, respectively. There is a remaining balance of \$46 accounted for as cash payable for the acquisition of Pactera as of December 31, 2016.

3. ACQUISITIONS - continued

(ii) Successor's acquisition of Pactera - continued

The Group also borrowed \$320.0 million to finance the Merger, comprising of \$45.0 million under its Senior Secured Cash Bridge Facility (see Note 15) and \$275.0 million of Senior Secured Notes (see Note 18). The proceeds were delivered net of \$17.0 million of financing and financing related fees. The net proceeds were fully used for repurchasing common shares (including common shares represented by ADS) held by ex-shareholders of Pactera on March 27, 2014.

The total cash consideration paid or payable at the closing of the transaction was \$570.0 million.

The financing related fees are being amortized as interest expense using the effective interest method over the term of the respective financing facilities in connection with the Merger, and \$2.4 million, \$2.3 million and \$6.6 million was amortized as interest expense during the nine months ended December 31, 2014, for the years ended December 31, 2015 and 2016, respectively. In connection with the adoption of ASU 2015-03, the Company reclassified debt unamortized issuance costs related to the Senior Secured Notes (please refer to Note 18) and revolving credit facilities from other assets to Senior Secured Notes and short-term borrowings, as a deduction to the carrying amount of the Senior Secured Notes and short-term borrowings in the consolidated balance sheets as of December 31, 2015 and 2016.

The purchase price allocation of the transaction, determined by the Group with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follows:

Net tangible assets:		Estimated useful life
Cash and cash equivalents	\$ 152,094	
Term deposits	2,187	
Accounts receivable	218,565	
Other current assets	61,496	
Property, plant and equipment	96,539	
Land use right	26,218	
Deferred tax assets - non-current	8,289	
Other non-current assets	3,944	
Current liabilities	(153,231)	
Non-current liabilities	(5,705)	
Total tangible assets	410,396	
Intangible assets acquired:		
Customer relationship	42,100	7.75 years
Trade name	64,700	4.75 years - indefinite
Software technology	3,499	2.61 - 4.75 years
Contract backlog	3,100	3.75 years
Non-compete agreement	1,600	4.75 years
Goodwill	135,772	
Total intangible assets and goodwill	250,771	
Deferred tax liabilities - non-current	(22,720)	
Total consideration	\$ 638,447	

3. ACQUISITIONS - continued

(ii) Successor's acquisition of Pactera - continued

The fair values of the intangible assets were determined using the "cost", "income approach-excess earnings", "with and without" and "relief from royalty" valuation methods. In performing the purchase price allocation, the Group considered, among other factors, forecasted financial performance of the acquired business and market performance of the acquired business in China. The Group expects to record an amortization expense of \$7,893, \$6,114, \$5,359, \$5,079 and \$4,582 for the years ending December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

(iii) Successor's acquisition of a China-based IT outsourcing company

On May 9, 2015, the Company acquired 100% equity interest of a China-based IT outsourcing company in Banking, Financial Services and Insurance ("BFSI") industry, with a cash consideration of \$1.2 million. The consideration has been fully paid by December 31, 2015.

The purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follows:

		<u>Estimated useful life</u>
Net tangible assets:		
Current assets	\$ 2,178	
Non-current assets	692	
Current liabilities	(3,315)	
Total tangible assets	(445)	
Intangible assets acquired:		
Customer relationship	600	5 years
Software technology	390	3 years
Non-compete agreement	215	2 years
Goodwill	749	
Total intangible assets and goodwill	1,954	
Deferred tax liability	(301)	
Total consideration	\$ 1,208	

The fair value of the intangible assets was determined using the "income approach-excess earnings" and "income approach-within or without" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in China. The Company expects to record amortization expense of \$287, \$138, \$79 and \$24 for the years ending December 31, 2017, 2018, 2019, and 2020, respectively.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

3. ACQUISITIONS - continued

(iv) Successor's acquisition of a business unit from a China-based IT service firm

On December 23, 2015, the Company acquired a business unit from a China-based IT service firm that provides IT services to clients in the BFSI industry, with a consideration of:

- cash consideration of \$0.1 million paid in December 2015; and
- contingent consideration of \$0.6 million based on the performance of the business unit from January 1, 2016 to December 31, 2018.

The purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follows:

		<u>Estimated useful life</u>
Intangible assets acquired:		
Customer relationship	\$ 269	3 years
Non-compete agreement	122	3 years
Goodwill	456	
Deferred tax liability	(98)	
Total consideration	<u>\$ 749</u>	

The Group believes that the acquisition will enhance the Group's business in financial industry and increase the Group's service offerings in China.

The fair value of the intangible assets was determined using the "income approach-excess earnings" and "income approach-within and without" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in China.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

(v) Acquisition of Blue Fountain Media

On January 1, 2016, the Company acquired 100% equity interest of Blue Fountain Media, a US-based digital agency specializing in online brand promotion by providing services of custom website design, results-driven digital marketing and mobile application development for both business-to-business and business-to-customer companies across all industries, with a consideration of:

- cash consideration of \$13.0 million prepaid in December 2015; and
- contingent consideration of \$8.4 million based on the performance of Blue Fountain Media from January 1, 2016 to December 31, 2017.

3. ACQUISITIONS - continued

(v) Acquisition of Blue Fountain Media - continued

According to the acquisition agreement, an additional consideration of \$3.0 million is contingent upon Blue Fountain Media's ex-shareholder's continued employment with the Company for two years after the acquisition. As such contingent consideration arrangement would be automatically forfeited if the ex-shareholder terminates his employment with the Company, the amount will be accounted for as employment compensation for post-acquisition services of the ex-shareholder.

The purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follow:

		<u>Estimated useful life</u>
Net tangible assets:		
Current assets	\$ 2,001	
Non-current assets	293	
Current liabilities	(1,028)	
Total tangible assets	1,266	
Intangible assets acquired:		
Trade name	2,003	5 years
Contract backlog	1,371	1 year
Customer relationship	1,114	3 years
Non-compete agreement	572	3 years
Goodwill	17,247	
Total intangible assets and goodwill	22,307	
Deferred tax liability	(2,125)	
Total consideration	\$ 21,448	

The fair value of the intangible assets was determined using the "income approach-relief of royalty", "income approach-excess earnings" and "income approach-within or without" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in the United States. The Company expects to record amortization expense of \$1,107, \$902, \$378 and \$345 for the years ending December 31, 2017, 2018, 2019 and 2020, respectively.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

(vi) Acquisition of a Business Unit from a US-based IT Service Company

In April 2016, the Company acquired a business unit from a US-based IT service company, with a cash consideration of \$0.3 million paid in April 2016.

According to the acquisition agreement, an additional consideration of \$0.6 million is payable to the ex-shareholders contingent upon their continued employment with the Company for two years after the acquisition. As such contingent consideration arrangement would be automatically forfeited if ex-shareholders terminate their employment with the Company, the amount will be accounted for as employment compensation for post-acquisition services.

3. ACQUISITIONS - continued

(vi) Acquisition of a Business Unit from a US-based IT Service Company - continued

The purchase price allocation of the transaction, determined by the Company with the assistance of an independent appraiser, was allocated to assets acquired and liabilities assumed as of the date of acquisition as follow:

		Estimated useful life
Intangible asset acquired:		
Customer relationship	\$ 195	4 years
Goodwill	220	
Deferred tax liability	(82)	
Total consideration	<u>\$ 333</u>	

The Company believes that the acquisition will enhance the Company's business in the IT industry and increase the Company's service offerings in the US.

The fair value of the intangible asset was determined using the "income approach-excess earnings" valuation methods. In performing the purchase price allocation, the Company considered, among other factors, forecasted financial performance and market performance of the acquired business in the US.

The goodwill is mainly attributable to intangible assets that cannot be recognized separately as identifiable assets under U.S. GAAP, and comprise (a) the assembled work force and (b) the expected market growth. Such market growth does not meet the criteria for recognition as an identifiable intangible asset.

4. RESTRICTED CASH

The balance of restricted cash of \$13,965 and \$4,163 for Successor as of December 31, 2015 and 2016, respectively, consisted of the following:

	December 31, 2015 (Successor)	December 31, 2016 (Successor)
Deposits of foreign currency forward contracts	\$ 124	\$ 2,952
Deposits of letter of guarantee	1,145	561
Deposits of a bank loan	12,486	189
Other deposits	210	461
	<u>\$ 13,965</u>	<u>\$ 4,163</u>

5. ACCOUNTS AND NOTES RECEIVABLE

Accounts and notes receivable, net, consists of:

	December 31, 2015	December 31, 2016
	(Successor)	(Successor)
Billed accounts receivable	\$ 109,930	\$ 115,645
Unbilled accounts receivable	183,170	180,215
Notes receivable	3,567	3,131
	<u>296,667</u>	<u>298,991</u>
Less: Allowance for doubtful accounts	11,945	11,019
	<u>\$ 284,722</u>	<u>\$ 287,972</u>

Accounts and notes receivable represent amounts earned under revenues contract. Revenue in excess of billings is recorded as unbilled accounts receivable and included in accounts receivable. These accounts receivable become billable according to the underlying contract terms.

On March 27, 2014, certain subsidiaries of the Company, namely Pactera Dalian, Pactera Beijing, Pactera Shenzhen, Pactera Wuxi, Hisoft Beijing, HURO and Pactera Jinxin (collectively as “Pledgors”) entered into a pledge agreement with Bank of America, N.A., Beijing Branch (“Bank of America”) to pledge certain accounts receivable of the Pledgors for the revolving credit facility as described in Note 17. As of December 31, 2016, the accounts receivable amounted to \$216,295 were pledged under this pledge agreement.

On June 22, 2016, certain subsidiaries of the Company, Pactera Dalian, Pactera Wuxi and Pactera Beijing (collectively as “Factoring Subsidiaries”), entered into a factoring agreement (“Factoring Agreement”) for accounts receivables with the Development Bank of Singapore (“DBS”). Under the Factoring Agreement, the Factoring Subsidiaries could factor qualified accounts receivables with recourse right and as such, the factoring under the Factoring Agreement is accounted for akin to a secured borrowing. Per the Factoring Agreement, Factoring Subsidiaries obtained a line of credit with a maximum amount totaling to RMB160.0 million.

The movement of the allowance for doubtful accounts of accounts receivable is as follow

	For the Three Months Ended March 31,	For the Nine Months Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,
	2014	2014	2015	2016
	(Predecessor)	(Successor)	(Successor)	(Successor)
Balance at the beginning of the period	\$ 13,646	\$ 7,564	\$ 6,556	\$ 11,945
Transferred of Huawei Project	(5,655)	-	-	-
Allowance for doubtful accounts	20	1,257	7,430	1,654
Write-off	(316)	(2,084)	(1,699)	(2,073)
Reclassified to assets held for sale	-	-	-	(171)
Foreign currency translation adjustments	(131)	(181)	(342)	(336)
Balance at the end of the period	<u>\$ 7,564</u>	<u>\$ 6,556</u>	<u>\$ 11,945</u>	<u>\$ 11,019</u>

6. PREPAID EXPENSES AND OTHER CURRENT ASSETS

	<u>December 31, 2015</u>	<u>December 31, 2016</u>
	(Successor)	(Successor)
Prepaid rent and other prepaid expenses	\$ 14,751	\$ 10,955
Deposits	3,088	3,478
Other current assets	1,078	1,888
Advances to suppliers	962	924
Advances to employees	394	305
Total	<u>\$ 20,273</u>	<u>\$ 17,550</u>

7. EQUITY METHOD INVESTMENTS

The Group's equity method investments consists of the following:

- (i) A wholly owned subsidiary, Sunwin holds a 50% equity interest in a PRC joint venture company, Beijing Yunxiang Weiye Information Technology Co., Ltd. ("Beijing Yunxiang"). On July 15, 2016, Beijing Yunxiang was dissolved and the Group received a cash payment of \$323 and recognized a tiny gain as a result of the dissolution.
- (ii) In January 2014, Predecessor and PT Jati Piranti Solusindo, a third party company based in the Republic of Indonesia set up a joint venture named PT Pactera Jatis Indonesia. The Group contributed \$131 cash representing 60% of equity interest in the joint venture. On July 10, 2016, the equity interest of PT Pactera Jatis Indonesia held by the Group was sold to PT Jati Piranti Solusindo at cash consideration of \$5 and resulted in a loss of \$72 for the year ended December 31, 2016.
- (iii) In September 2016, Pactera Beijing and Guizhou Zhongshuxin Technology Limited, a third party company, set up a PRC joint venture company named Guizhou Pactera Technology Limited ("Guizhou Pactera") for IT development service business. The Group contributed \$369 cash representing 25% of equity interest in Guizhou Pactera. No gain or loss was recognized for this equity method investment for the year ended December 31, 2016 as Guizhou Pactera did not start its operations in 2016.

These investments have been recorded using the equity method of accounting because the Group has the ability to exercise significant influence over the operating and financing activities of the investees but does not have control over them.

The investment earnings generated from equity method investments of Predecessor for the three months ended March 31, 2014 was \$9. The loss generated from equity method investments of Successor for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016 were \$12, \$26 and \$72, respectively.

8. HELD FOR SALE

In December 2016, the Group determined to sell Sunwin, a wholly owned subsidiary of the Group which provides IT consulting and solutions to companies in Chinese airline industry. The Group subsequently signed the share purchase agreement with a third party to sell the entire equity interest in Sunwin for an estimated cash consideration of \$8,260 and the disposal of Sunwin was completed on January 4, 2017. The Company did not recognize any impairment loss for the held for sale as the fair value less costs to sell exceeds the net assets carrying amount owned by Sunwin as of December 31, 2016.

The carrying amounts of assets and liabilities of Sunwin were classified and presented as held for sale in the consolidated balance sheet as of December 31, 2016.

9. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31, 2015	December 31, 2016
	(Successor)	(Successor)
Building (i)	\$ 75,105	\$ 70,446
Furniture, fixtures, electronic equipment and software	46,267	39,788
Transportation equipment	1,808	1,621
Leasehold improvements	15,868	14,963
	<u>\$ 139,048</u>	<u>\$ 126,818</u>
Less: Accumulated depreciation	49,237	48,996
Property, plant and equipment, net	<u>\$ 89,811</u>	<u>\$ 77,822</u>

(i) A building located in Beijing with a carrying amount of \$43,744 was pledged for the Secured Short-term Borrowing Facility as disclosed in Note 16.

Depreciation expense of Predecessor for the three months ended March 31, 2014 was \$3,058, while depreciation expense of Successor for the nine months ended December 31, 2014, and the years ended December 31, 2015 and 2016 were \$9,735, \$12,222 and \$11,238, respectively.

10. LAND USE RIGHT

The land use right was acquired by Predecessor as a result of the merger of equals with VanceInfo. Predecessor recorded the land use right at fair value of \$24,393 on November 9, 2012, the acquisition date as a part of the purchase price allocation and amortized the cost of land use right on a straight-line basis over the remaining useful life of 49 years.

The land use right was further acquired by Successor as a result of the Merger with Predecessor. Successor recorded the land use right at fair value of \$26,218 at the Merger Date as part of the purchase price allocation and amortized the cost of land use right on a straight-line basis over the remaining useful life of 47 years.

The land use right for a building owned by the Company located in Beijing was pledged for the Secured Short-Term Borrowing Facility (as disclosed in Note 16).

Amortization expense of Predecessor for the three months ended March 31, 2014 was \$128, while amortization expense of Successor for the nine months ended December 31, 2014, and the years ended December 31, 2015 and 2016 were \$418, \$549 and \$524, respectively.

10. LAND USE RIGHT - continued

	For the Year Ended December 31,	For the Year Ended December 31,
	2015	2016
	(Successor)	(Successor)
Balance at the beginning of the year	\$ 25,851	\$ 24,306
Amortization	(549)	(524)
Foreign currency translation adjustments	(996)	(1,363)
Balance at the end of the year	<u>\$ 24,306</u>	<u>\$ 22,419</u>

11. INTANGIBLE ASSETS

Intangible assets and their related accumulated amortization as of December 31, 2015 and 2016 of Successor were as follows:

	Contract backlog	Customer relationship	Trade name	Non-compete agreement	Software technology	Total
Successor						
Balance as of January 1, 2015	\$ 304	\$ 40,005	\$ 63,560	\$ 1,347	\$ 3,048	\$ 108,264
Acquisition	-	869	-	337	390	1,596
Amortization	(284)	(6,189)	(744)	(404)	(785)	(8,406)
Balance as of December 31, 2015	<u>\$ 20</u>	<u>\$ 34,685</u>	<u>\$ 62,816</u>	<u>\$ 1,280</u>	<u>\$ 2,653</u>	<u>\$ 101,454</u>
Acquisition	1,371	1,309	2,003	572	-	5,255
Amortization	(1,384)	(8,012)	(854)	(553)	(976)	(11,779)
Foreign currency translation adjustments	-	(11)	-	(8)	-	(19)
Balance as of December 31, 2016	<u>7</u>	<u>27,971</u>	<u>63,965</u>	<u>1,291</u>	<u>1,677</u>	<u>94,911</u>
Gross carrying amount						
Balance as of December 31, 2015 (Successor)	\$ 3,100	\$ 42,969	\$ 64,700	\$ 1,937	\$ 3,889	\$ 116,595
Balance as of December 31, 2016 (Successor)	<u>4,471</u>	<u>44,278</u>	<u>66,703</u>	<u>2,509</u>	<u>3,889</u>	<u>121,850</u>
Accumulated amortization						
Balance as of December 31, 2015 (Successor)	\$ 3,080	\$ 8,284	\$ 1,884	\$ 657	\$ 1,236	\$ 15,141
Balance as of December 31, 2016 (Successor)	<u>\$ 4,464</u>	<u>\$ 16,307</u>	<u>\$ 2,738</u>	<u>\$ 1,218</u>	<u>\$ 2,212</u>	<u>\$ 26,939</u>

\$62,200 in indefinite-lived trade name was included in the gross carrying amount of intangible assets of Successor as of December 31, 2015 and 2016, respectively. The carrying amounts of this trade name is not subject to amortization but is tested for impairment at least annually or if events or changes in circumstances indicate that the asset might be impaired.

Amortization expense of Predecessor for the three months ended March 31, 2014 was \$2,220, while amortization expense of Successor for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016 were \$6,735, \$8,406 and \$11,779, respectively. The Group expects to record amortization expense of \$9,456, \$7,374, \$5,845, \$5,454 and \$4,582 for the years ending December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

11. INTANGIBLE ASSETS - continued

There is no impairment charge recorded for the three months ended March 31, 2014 of Predecessor and for the nine months ended December 31, 2014 or the years ended December 31, 2015 and 2016 of Successor.

12. GOODWILL

The Group has only one reporting unit and the changes in the carrying amount of goodwill are as follows:

	For the Year Ended December 31, 2015 (Successor)	For the Year Ended December 31, 2016 (Successor)
Balance at the beginning of the year	\$ 135,772	\$ 136,977
Goodwill acquired in business acquisitions	1,205	17,467
Foreign currency translation adjustments	-	(30)
Balance at the end of the year	<u>\$ 136,977</u>	<u>\$ 154,414</u>

The Group performs its annual impairment test for goodwill on December 31 of each year. Based on the results of the impairment test, there was no impairment charge for the three months ended March 31, 2014 of Predecessor and for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016 of Successor.

13. OTHER ASSETS

	December 31, 2015 (Successor)	December 31, 2016 (Successor)
Prepayment for a business acquisition (i)	\$ 13,000	\$ -
Deferred cost in relation to a loan to a related party (see Note 25)	2,871	1,108
Rental deposits	2,265	2,262
Others	801	837
Total	<u>\$ 18,937</u>	<u>\$ 4,207</u>

- (i) In January 2016, the Group acquired 100% equity interest of Blue Fountain Media, a US based company that provides website development and online marketing strategies services from a third party. In December 2015, the Group prepaid \$13,000 cash consideration which was recorded as other assets as of December 31, 2015.

14. ACCRUED EXPENSES AND OTHER PAYABLES

	<u>December 31, 2015</u>	<u>December 31, 2016</u>
	<u>(Successor)</u>	<u>(Successor)</u>
Employee payroll and welfare payables	\$ 67,379	\$ 67,140
Subcontractors fees	11,931	13,464
Advance from customers	10,345	11,587
Other payable	8,490	9,354
Accrued disbursement to employees	7,484	5,297
Accrued operating expenses	5,998	4,736
Accrued interest expense	4,691	4,754
Accrued technical service fee	2,663	3,433
Amounts payable for construction of building and purchase of property, plant and equipment	5,066	1,554
Government grant payable	699	952
Accrued privatization related cost	4,200	855
Accrued travel expenses	881	675
Accrued rental expenses	1,825	367
Share-based compensation expense payable	664	193
Accrued MOE related cost	340	-
Cash payable for acquisition of Pactera	202	46
Total	<u>\$ 132,858</u>	<u>\$ 124,407</u>

15. SENIOR SECURED CASH BRIDGE FACILITY

As part of the financing of the Merger, the Group borrowed \$45.0 million under a senior secured cash bridge facility (the “Senior Secured Cash Bridge Facility”). The related issuance costs were \$1.3 million as of the Merger Date and were recorded as prepaid issuance costs, which were amortized as interest expense over the term of the Senior Secured Cash Bridge Facility. The annual interest rate on the Senior Secured Cash Bridge Facility is equal to an applicable margin plus the London Interbank Offered Rate (“LIBOR”) adjusted for certain additional reserve requirements.

This borrowing was fully repaid in April 2014.

16. SHORT-TERM BORROWINGS

In December 2015, the Group entered into an agreement with a PRC commercial bank to obtain a loan facility totaling \$10.0 million which bears an interest at 2% plus 6-month LIBOR per annum with the maturity date of June 30, 2016. The loan was secured by a bank deposit, and it was repaid in full on June 30, 2016.

In November 2015, the Company entered into an agreement with a PRC commercial bank to obtain a secured short-term borrowing facility (the “Secured Short-Term Borrowing Facility”) totaling RMB500.0 million (\$78.0 million), which was secured by pledging a building owned by the Company located in Beijing and the relevant land use right. In February, March, April and June 2016, the Company obtained four one-year loans totaling RMB250.0 million (\$38.2 million) under the Secured Short-Term Borrowing Facility, each of which bears interest at a rate of 5.22% per annum, which was equal to 120 percent of the People’s Bank of China (“PBOC”) one year short-term borrowing base rate at the time when the loans were obtained.

16. SHORT-TERM BORROWINGS - continued

In September 2016, the Company entered into an offshore agreement with a PRC commercial bank to obtain a loan facility totaling \$6.8 million which bears interest at a rate of 0.5% plus 12-month LIBOR per annum, with a maturity date of September 22, 2017. The loan is guaranteed by a standby letter of credit.

Short-term borrowings also include revolving credit facilities as described in Note 17.

17. REVOLVING CREDIT FACILITIES

Offshore Revolving Credit Facility

On March 27, 2014, the Group entered into an offshore credit agreement, together with security and other agreements, which provided the Group with a \$30.0 million equivalent revolving credit facility (the "Offshore Revolver") due on March 27, 2019.

Borrowings under the Offshore Revolver will bear interest at a rate per annum equal to an applicable margin plus one of a number of base rates at the Group's option. In addition to paying interest on outstanding principal under the Offshore Revolver, the Group will be required to pay a quarterly commitment fee to the lenders under the Offshore Revolver in respect of the unutilized commitments thereunder. The Group will also pay customary letter of credit and agency fees. The Group recorded a commitment fee of \$116, \$136 and \$115 and an agency fee of \$56, \$76 and \$75 for the nine months ended December 31, 2014 and the years ended December 31, 2015 and 2016, respectively.

On May 6, 2015, the Company borrowed \$5.0 million under the Offshore Revolver, which has been renewed on a monthly basis.

As of December 31, 2016, the Company had outstanding drawings of \$2.0 million under the Offshore Revolver, with an interest rate of 4.50% per annum.

The main terms of the Offshore Revolver are summarized as follows:

Guarantees

Certain of the Company's wholly-owned restricted subsidiaries set forth under the offshore credit agreement, together with the Company, will be co-borrowers and jointly and severally liable for all obligations under the Offshore Revolver. The obligations under the Offshore Revolver will be unconditionally guaranteed by Parent and each of the Company's existing and future wholly-owned restricted subsidiaries (with certain exceptions for, among other things, immaterial subsidiaries and excluding any direct or indirect subsidiary established or organized in the PRC (excluding Hong Kong, Macau and Taiwan)) and will be secured by a first-priority perfected security interest in substantially all of the assets of the offshore borrowers and guarantors, in each case, now owned or later acquired, including a pledge of all of the Company's capital stock and the capital stock of substantially all of the Company's material wholly-owned restricted subsidiaries, subject in each case to the exclusion of certain assets and additional exceptions.

17. REVOLVING CREDIT FACILITIES - continued

Ranking

Offshore Revolver and Senior Secured Cash Bridge Facility will be subject to first priority liens. Under the terms of the security documents and/or inter-creditor agreement, the proceeds of any collection, sale, disposition or other realization of collateral received in connection with the exercise of remedies (including distributions of cash, securities or other property on account of the value of the collateral in a bankruptcy, insolvency, reorganization or similar proceedings) will be applied first to repay amounts due under Offshore Revolver, and additional "super-priority" borrowings that we may incur under the incremental offshore facilities, including any post-petition interest and certain other amounts with respect thereto, before the holders of the notes receive any proceeds of such collateral.

Certain Covenants

The Company is required to comply with a maximum leverage ratio test whenever the Company makes a borrowing or request a letter of credit under the Offshore Revolver, if, on a pro forma basis for such borrowing or request for such letter of credit under the Offshore Revolver would exceed 25% of the total amount of the Offshore Revolver on such date. The Company is required to comply with such maximum leverage ratio test on the last day of any quarter in which the aggregate principal amount of borrowings and outstanding letters of credit (except to the extent cash collateralized) under the Offshore Revolver exceeds 25% of the total amount of the Offshore Revolver on such date. In addition, the offshore revolving credit facility will include negative covenants that will, among other things and subject to certain significant exceptions, limit the Company's ability and the ability of the Company's restricted subsidiaries to:

- incur indebtedness or guarantees;
- incur liens;
- make investments, loans and acquisitions;
- consolidate, merge or transfer all or substantially all of the Company's assets and the assets of the Company's subsidiaries;
- pay dividends on the Company's capital stock or redeem, repurchase or retire the Company's capital stock;
- prepay, redeem or purchase subordinated debt;
- engage in transactions with the Company's affiliates; and
- enter into agreements limiting subsidiary dividends and distributions.

If an event of default occurs, the lenders under the Offshore Revolver will be entitled to take various actions, including the acceleration of amounts due under the Offshore Revolver and all actions customarily permitted to be taken by a secured creditor subject to and in accordance with applicable law and the documents governing the Offshore Revolver.

17. REVOLVING CREDIT FACILITIES - continued

Onshore Revolving Credit Facility

On March 27, 2014, the Group entered into an onshore credit agreement, together with a security and other agreements, which provide for a \$20.0 million equivalent onshore revolving credit agreement (the “Onshore Revolver”) due on March 27, 2019. Proceeds of the loans under the Onshore Revolver may be used for working capital and general corporate purposes in accordance with applicable laws and to replace, backstop or cash collateralize existing letters of credit, guarantees and performance and similar bonds.

Borrowings under the Onshore Revolver bear interest at a rate per annum equal to a certain percentage above the base interest rate applicable to RMB denominated loans published by the PBOC on the rate fixing date for the period of six months. In addition to paying interest on outstanding principal under the Onshore Revolver, the Group is required to pay an annual commitment fee payable quarterly in arrears to the lenders under the Onshore Revolver in respect of the unutilized commitments thereunder. The Group is also required to pay customary letter of credit and agency fees. The Group recorded a commitment fee of \$78, \$82 and \$31 and an agency fee of \$38, \$49 and \$47 for the nine months ended December 31, 2014, for the years ended December 31, 2015 and 2016, respectively.

On May 4, 2015, the Company borrowed RMB30.0 million (\$4.8 million) under the Onshore Revolver, which has been renewed every three months.

As of December 31, 2016, the Company had no outstanding drawings under the Onshore Revolver.

The main terms of the Onshore Revolver are summarized as follows:

Guarantees

Certain of the Company’s wholly-owned PRC restricted subsidiaries will be co-borrowers and jointly and severally liable for all obligations under the Onshore Revolver. The obligations under the Onshore Revolver will be unconditionally guaranteed by each of the Company’s existing and future wholly-owned restricted subsidiaries established or organized in the PRC (excluding Macau, Hong Kong and Taiwan) (with certain exceptions for immaterial subsidiaries) and will be secured by a first ranking security interest in certain assets of the onshore borrowers and guarantors, in each case, now owned or later acquired, including a perfected pledge of all of the capital stock of the onshore borrowers, subject in each case to the exclusion of certain assets and additional exceptions. The terms of Onshore Revolver will require a pledge of capital stock of certain of the onshore borrowers which are directly wholly owned by companies incorporated outside of the PRC (excluding Macau, Hong Kong and Taiwan).

17. REVOLVING CREDIT FACILITIES - continued

Certain Covenants

The onshore borrowers will be required to comply with a maximum leverage ratio test whenever the onshore borrowers make a borrowing or requests a letter of credit under the Onshore Revolver, if, on a pro forma basis for such borrowing or request for such letter of credit, the aggregate principal amount of borrowings and outstanding letters of credit (except to the extent cash collateralized) under the Onshore Revolver would exceed 25% of the total amount of the Onshore Revolver on such date. The onshore borrower will also be required to comply with such maximum leverage ratio test on the last day of any quarter in which the aggregate principal amount of borrowings and outstanding letters of credit (except to the extent cash collateralized) under the Onshore Revolver exceeds 25% of the total amount of the Onshore Revolver on such date. In addition, the Onshore Revolver will include negative covenants that will, among other things and subject to certain significant exceptions, limit the onshore borrower's ability and the ability of its restricted subsidiaries to:

- incur indebtedness or guarantees;
- incur liens;
- make investments, loans and acquisitions;
- consolidate or merge;
- sell assets, including capital stock of its subsidiaries;
- pay dividends on the Company's capital stock or redeem, repurchase or retire its capital stock;
- alter the business it conducts;
- amend, prepay, redeem or purchase subordinated debt;
- engage in transactions with its affiliates; and
- enter into agreements limiting subsidiary dividends and distributions, provided that the restrictions will not restrict:
- any acquisitions, disposals, indebtedness, loans or other similar transactions among restricted subsidiaries of the Company that are established or organized in the PRC; and
- as long as no event of default is continuing, payment of dividends and other payments to any direct or indirect parent company made in accordance with applicable laws.

If an event of default occurs, the lenders under the Onshore Revolver will be entitled to take various actions, including the acceleration of amounts due under the Onshore Revolver and all actions customarily permitted to be taken by a secured creditor.

The financing related fee of \$2.1 million were treated as a reduction of the Revolving Credit Facilities and amortized over the 5-year borrowing period for the nine months ended December 31, 2014 and for the year ended December 31, 2015. On January 3, 2017, the Company repaid the entire outstanding amounts under the Revolving Credit Facilities with proceeds from Great Paean. The Company terminated the Revolving Credit Facilities and therefore recognized the remaining unamortized financing related fee of \$1.4 million for the year ended December 31, 2016.

17. REVOLVING CREDIT FACILITIES - continued**Certain Covenants - continued**

The balance of revolving credit facilities consisted of the following:

	<u>December 31, 2015</u>	<u>December 31, 2016</u>
	<u>(Successor)</u>	<u>(Successor)</u>
Outstanding balance of the Onshore Revolver	\$ 4,620	\$ -
Outstanding balance of the Offshore Revolver	5,000	2,000
Less: unamortized financing related fees	(1,400)	-
Net balance of the revolving credit facilities	<u>\$ 8,220</u>	<u>\$ 2,000</u>

As a result of adopting the new guidance related to the presentation of debt issuance costs (see Note 2), the Company's consolidated balance sheet as of December 31, 2015 has been retrospectively adjusted to reduce short-term borrowings by \$1.4 million and other assets by \$1.4 million, respectively.

18. SENIOR SECURED NOTES

On March 27, 2014, as part of the financing of the Merger, the Group issued \$275.0 million in aggregate principle amount of 8.0% senior secured notes due on April 15, 2021 ("Senior Secured Notes" and, for the purpose of this Note 18, the "Notes").

Notes issuance costs were \$13.6 million as of the Merger Date and were recorded as a reduction of the Senior Secured Notes, which are being amortized as interest expense over the term of the Notes. The net proceeds from the issuance of the Notes were \$261.4 million. The Group pays interest at an annual rate of 8.0% on the Notes, payable semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2014 and the Group records as interest expense on an accrual basis. Interest expense of \$17.9 million, \$23.5 million and \$27.2 million were recorded for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016, respectively, based on an annual effective interest rate of 8.76%, 8.76% and 9.18% respectively, of which \$1.1 million, \$1.5 million and \$5.2 million were the amortization of issuance costs, respectively. The carrying amount of the Senior Secured Notes consisted of the following:

	<u>December 31, 2015</u>	<u>December 31, 2016</u>
Principal amount	\$ 275,000	\$ 275,000
Less: unamortized debt issuance cost	<u>(10,882)</u>	<u>(5,664)</u>
Net balance of the Senior Secured Notes	<u>264,118</u>	<u>269,336</u>
Current portion	-	169,362
Non-current portion	<u>\$ 264,118</u>	<u>\$ 99,974</u>

As a result of adopting the new guidance related to the presentation of debt issuance costs (see Note 2), the Company's consolidated balance sheet as of December 31, 2015 has been retrospectively adjusted to reduce Senior Secured Notes by \$10.9 million and other assets by \$10.9 million, respectively.

18. SENIOR SECURED NOTES - continued

The main terms of the Notes are summarized as follows:

Guarantees

The Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis, by Parent ("Guarantor") and, subject to certain exceptions, each of the Group's existing and future material wholly-owned restricted subsidiaries to the extent such entities guarantee indebtedness under the Group's Offshore Revolver (see Note 17) or the Group's other indebtedness or indebtedness of any subsidiary guarantor (collectively, the "Guarantors").

Collateral

Following the consummation of the Merger, the Notes and the guarantees thereof are secured, subject to certain exceptions and permitted liens, on a first-priority lien basis, by the assets that secure the Group and the Group's Guarantors' obligations under the Group's Offshore Revolver. Under the terms of the security documents and/or inter-creditor agreement, however, the proceeds of any collection or other realization of collateral received in connection with the exercise of remedies are applied first to repay amounts due under the Group's Offshore Revolver, and any additional "super-priority" obligations that the Group is permitted to incur in the future, before the holders of the Notes receive such proceeds.

Ranking

The Notes and the guarantees thereof are the Group and the Guarantors' senior obligations and rank equally in right of payment with all of the Group's and the Guarantors' existing and future senior obligations (without giving effect to security interests), and senior in right of payment to any of the Group and the Guarantors' subordinated indebtedness. Pursuant to the terms of the security documents and/or inter-creditor agreement, claims under the Notes and guarantees thereof effectively rank behind the claims of holders of "super-priority" obligations, including interest, in respect of proceeds from the enforcement of remedies or other realization of collateral. The Notes and the guarantees are structurally subordinated to all existing and future liabilities (including trade payables) of the Group's subsidiaries that do not guarantee the Notes.

Redemption

Mandatory Redemption: If the Group undergoes a change of control or sell certain assets, the Group may be required to offer to repurchase the Notes. The Indenture will provide that if a Change of control occurs after the Issue Date, unless the Issuer has previously or concurrently sent a redemption notice with respect to all the outstanding Notes as described under "Optional Redemption" and any conditions to such redemption (other than the consummation of a change of control) have been satisfied or waived, the Issuer will make an offer to purchase all of the Notes pursuant to the offer described below (the "Change of Control Offer") at a price in cash (the "Change of Control Payment") equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase, subject to the right of Holders of the Notes of record on the relevant record date to receive interest due on the relevant interest payment date.

18. SENIOR SECURED NOTES - continued

Redemption - continued

Optional Redemption: The Group may redeem at any time and from time to time prior to April 15, 2017, some or all of the Notes at 100% of their principal amount thereof plus accrued and unpaid interest to the redemption date plus the applicable "make-whole premium." Prior to April 15, 2017, during any 12 month period, the Group also may redeem at any time and from time to time up to 10% of the aggregate principal amount of the issued notes at a price equal to 103% of the principal amount thereof, plus accrued and unpaid interest. From and after April 15, 2017, the Group may redeem at any time and from time to time some or all of the notes at the applicable redemption prices set forth below:

<u>Year</u>	<u>Percentage</u>
2017	106.0%
2018	104.0%
2019	102.0%
2020 and thereafter	100.0%

In addition, on or prior to April 15, 2017, the Group may redeem up to 40% of the aggregate principal amount of the Notes with the proceeds from certain equity offerings at the applicable redemption prices. In the event of certain developments affecting taxation, the Group may redeem all, but not less than all, of the Notes.

Certain Covenants

The Notes contain a number of negative covenants that, subject to certain limitations and exceptions, limit the ability of the Group and the ability of certain of the Group's subsidiaries to:

- incur or guarantee additional debt or issue certain capital stock;
- pay dividends and make other distributions on, or redeem or repurchase, capital stock;
- prepay subordinated debt;
- make certain loans and investments;
- incur certain liens;
- enter into transactions with affiliates;
- consolidate, merger or transfer all or substantially all assets; and
- enter into agreements that restrict the ability of restricted subsidiaries to make dividends.

Any failure to comply with such covenants would constitute an event of default under the Notes. If an event of default is continuing, the lenders would have the right to accelerate the Notes repayment together with accrued interest.

The estimated fair value of the Notes as of December 31, 2015 and 2016 was \$239.3 million and \$269.5 million, respectively based on Level 1 inputs. The carrying value was \$264.1 million and \$269.3 million as of December 31, 2015 and 2016, respectively.

19. FAIR VALUE

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Group measured its financial assets and liabilities, including cash equivalents, term deposits, restricted cash, accounts and notes receivable, amounts due from related parties – current, accounts payable, foreign currency forward contracts and contingent consideration on a recurring basis as of December 31, 2016. Cash equivalents, term deposits and restricted cash are classified within Level 1 of the fair value hierarchy because they are valued based on the quoted market price in an active market. The carrying amounts of accounts and notes receivable and accounts payable approximate their fair values due to their short-term maturity.

Contingent consideration

The contingent consideration in connection with acquisition made by Predecessor before the Merger and acquisitions made by Successor after the Merger were determined at fair value based on, among other factors, forecast financial performance of the acquired business, and discount rate (Level 3 inputs).

The Group estimates and records the acquisition date estimated fair value of contingent consideration as part of purchase price consideration for acquisitions. Additionally, at the end of each reporting period, the Group calculates the changes in the fair value of contingent consideration, and recognizes such changes in the consolidated statements of operations.

An increase in the earn-out expected to be paid will result in a charge to operations in the period that the anticipated fair value of contingent consideration increases, while a decrease in the earn-out expected to be paid will result in a credit to operations in the period that the anticipated fair value of contingent consideration decreases. The estimate of the fair value of contingent consideration requires subjective assumptions to be made of future operating results, discount rates, and timing of earn-out payments. Future revisions to these assumptions could materially change the estimate of the fair value of contingent consideration and, therefore, materially affect the Group's future financial results.

The fair value measurement of the contingent consideration encompasses the following significant unobservable inputs:

Unobservable Inputs	Range
Estimated contingent consideration payments	\$227 - \$4,582
Discount rate	4.25% - 8.90%
Timing of cash flows	Nil – 2.83 years

19. FAIR VALUE - continued

Assets and Liabilities Measured at Fair Value on a Recurring Basis - continued

Contingent consideration - continued

The following table summarizes the movement of the contingent consideration measured at fair value on recurring basis for the years ended December 31, 2015 and 2016 of Successor:

Successor

Contingent consideration as of December 31, 2014	\$ 13,692
Increase in contingent consideration as a result of business acquisitions	613
Less: Cash payments	(4,082)
Add: Changes in fair values	(1,240)
Foreign currency translation adjustments	(108)
Contingent consideration as of December 31, 2015	<u>\$ 8,875</u>
Including	
Contingent acquisition consideration payable - current	\$ 5,522
Contingent acquisition consideration payable - non-current	\$ 3,353
Increase in contingent consideration as a result of business acquisitions	8,448
Less: Cash payments	(3,768)
Add: Changes in fair values	698
Foreign currency translation adjustments	(50)
Contingent consideration as of December 31, 2016	<u>14,203</u>
Including	
Contingent acquisition consideration payable - current	\$ 7,845
Contingent acquisition consideration payable - non-current	\$ 6,358

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

The Group's financial assets and liabilities measured at fair value on a non-recurring basis include equity method investments, acquired assets and liabilities in connection with business acquisitions and non-current amount due from a related party based on Level 3 inputs.

The Group measured the equity method investments at fair value on a non-recurring basis when it wrote down the carrying amounts of equity method investments to their fair values as a result of the impairment assessments. The fair value was determined using models with significant unobservable inputs (Level 3 inputs), primarily the management estimation on the future cash flows from the investees and the discount rate.

19. FAIR VALUE - continued

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis - continued

The Group measured the fair value of the purchased intangible assets using the "income approach - relief from royalty", "income approach - excess earnings" and "income approach-within and without" valuation methods. These acquired intangible assets are considered Level 3 assets and liabilities because the Group used unobservable inputs, such as forecast financial performance of the acquired business and discount rates at a range of 14.5% to 31.0%, to determine the fair value of these purchased assets and liabilities.

The fair value was determined using models with significant unobservable inputs, Level 3 inputs, primarily the discounted future cash flow. Goodwill, intangible assets and equity method investments are measured at fair value on a non-recurring basis and they are recorded at fair value only when impairment is recognized.

The fair value measurement of the non-current amount due from a related party refers to Note 25.

20. INCOME TAXES

The current and deferred components of income tax expense are as follows:

	For the Three Months Ended March 31,	For the Nine Months Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,
	2014	2014	2015	2016
	(Predecessor)	(Successor)	(Successor)	(Successor)
Current tax expense				
- PRC and Hong Kong	\$ 1,868	\$ 7,287	\$ 3,689	\$ 6,197
- Japan	47	29	288	13
- U.S.	24	427	13	25
- Singapore	79	213	58	-
- Australia	-	178	3	-
- Europe	(57)	32	(139)	40
	<u>1,961</u>	<u>8,166</u>	<u>3,912</u>	<u>6,275</u>
Deferred tax (benefit) expense				
- PRC and Hong Kong	(1,959)	5,000	(1,967)	(2,593)
- Japan	263	625	(32)	(40)
- U.S.	(856)	(285)	7	2,025
- Singapore	(39)	72	(107)	116
- Australia	44	645	-	-
- Europe	(160)	540	32	(87)
- Africa	(4)	3	-	-
	<u>(2,711)</u>	<u>6,600</u>	<u>(2,067)</u>	<u>(579)</u>
Income tax (benefit) expense	<u>\$ (750)</u>	<u>\$ 14,766</u>	<u>\$ 1,845</u>	<u>5,696</u>

20. INCOME TAXES - continued

Cayman Islands

The Company, Pactera and VanceInfo are tax-exempted companies incorporated in the Cayman Islands and are not subject to tax on income or capital gains.

British Virgin Islands

Pactera BVI and Pactera Financial Solutions are exempted from income tax in the British Virgin Islands where they were incorporated.

Hong Kong

Pactera Systems Hong Kong, Pactera Hong Kong, TP Teleservices, TP Hong Kong, TP Consultants, TP Taiwan, Pactera Financial Service, Lifewood Technology and Lifewood Data were established in Hong Kong and are subject to the Hong Kong profit tax rate at 16.5%.

Japan

Pactera Japan was established in Japan and subject to an income tax rate of 38% in 2013 and 2014, and 35.64% in 2015 and 2016, respectively. Pactera Consulting was set up in 2015 as a small company, which was subject to income tax at gradual rates from 25.9% to 36.05%.

Singapore

Pactera Singapore was established in Singapore and is subject to Singapore income taxes at the rate of 17%.

The United States

DMK International, Pactera NA, NouvEON, Pactera US and Blue Fountain Media were established in the United States and are subject to the U.S. federal income taxes at gradual rates from 15% to 39% and state income taxes of 6%, 8.84%, 6.9%, 8.84% and 6.5%, respectively.

Spain

Pactera Spain was established in Spain and is subject to the Spanish income tax at the rate of 30% in 2014. According to Spain's tax reform, the income tax rate changed to be 28% in 2015 and 25% in 2016.

Australia

Bearing Point and Pactera Australia were established in Australia and are subject to Australia corporate income tax at 30%.

Malaysia

Pactera Malaysia was established in Malaysia and is subject to corporate income tax at 25%.

Mauritius

Pactera Mauritius was established in Mauritius and is subject to corporate income tax at 15%.

20. INCOME TAXES - continued

Switzerland

Pactera Switzerland was established in Zurich, Switzerland and is subject to a comprehensive tax rate of 26.82% on its profit as a result of the Swiss federal tax, Cantonal and Communal taxes included.

Hungary

Pactera Hungary was established in Hungary and is subject to the Hungarian income tax at gradual rates from 10% to 19%.

Italy

Pactera Italy was established in Italy and is subject to the Italian income tax at the rate of 27.5%.

India

Pactera India was established in India and is subject to the Indian income tax at the rate of 34%.

PRC

The preferential tax rates, which are rates enjoyed by the PRC entities of the Group, different from the statutory rates of 25% for the years ended December 31, 2014, 2015 and 2016 are presented in the following table:

Subsidiaries	0%	10%	12.5%	15%
Pactera Dalian ^{(1) (9)}	-	2014-2015	-	2016
Pactera Shenzhen Systems ⁽²⁾	-	-	-	2014-2015
HiSoft Beijing ⁽¹⁾	-	-	-	2014-2016
Pactera Wuxi ⁽³⁾	-	-	2014	2015-2016
Pactera Jinxin ⁽¹⁾	-	-	-	2014-2016
Glory ⁽¹⁾	-	-	-	2014-2016
Pactera Beijing ⁽⁴⁾	-	-	-	2014-2016
Pactera Nanjing ⁽⁵⁾	-	-	-	2014-2016
Pactera Shenzhen ⁽⁶⁾	-	2014-2015	-	2016
Beijing DPC ⁽⁷⁾	-	-	-	2014
Pactera Shanghai Technology ⁽⁸⁾	-	-	-	2014-2016
Pactera Shenzhen Information ⁽¹⁰⁾	2015	-	2016	-
Sunwin ⁽¹⁾	-	-	-	2014-2016

20. INCOME TAXES - continued

- (1) The "High and New Technology Enterprise" (the "HNTE") status obtained by Pactera Dalian, HiSoft Beijing and Glory in 2011, while Pactera Jinxin and Sunwin in 2012, under the Enterprise Income Tax Law (the "EIT Law") effective on January 1, 2008, is valid for three years and qualifying entities can re-apply for an additional three years provided their business operations continue to qualify for the new HNTE status. In 2014, Pactera Dalian, HiSoft Beijing and Glory renewed their HNTE status and enjoyed the preferential tax rate of 15% from 2014 to 2016, while the HNTE status of Pactera Chengdu and HURO expired. In 2015, Pactera Jinxin and Sunwin renewed their HNTE status and enjoyed the preferential tax rate of 15% from 2015 to 2016.
- (2) In 2010, Pactera Shenzhen Systems was certified as an "Advanced Technology Service Enterprise" and entitled to an income tax rate of 15% from January 1, 2010 to December 31, 2013. In 2014, the 15% preferential income tax rate was extended from 2014 to 2015.
- (3) Pactera Wuxi was certified as a software enterprise in 2010. Starting from 2010, Pactera Wuxi is entitled to a two-year tax exemption followed by a three-year of 50% deduction of its income tax. In 2015, Pactera Wuxi was certified as the HNTE and entitled to an income tax rate of 15% from 2015 to 2016.
- (4) Pactera Beijing obtained the new HNTE in 2008 and the HNTE certificate was renewed in 2011 and further renewed in 2014. Pactera Beijing was further recognized as a "key software enterprise under the State plan" in 2012, which entitled it to a 10% preferential income tax rate in 2011 and 2012. From 2013 to 2016, Pactera Beijing enjoyed the preferential income tax rate of 15% as the HNTE.
- (5) Pactera Nanjing was certified as a software enterprise in 2009 and entitled to an exemption of Enterprise Income Tax ("EIT") from 2009 to 2010 and 50% reduction for the subsequent three years at the preferential tax rate of 12.5% from 2011 to 2013. Pactera Nanjing obtained the HNTE certificate in 2013 and enjoyed the preferential tax rate of 15% from 2014 to 2015. In 2016, Pactera Nanjing renewed its HNTE certificate and entitled to a preferential tax rate of 15% for 2016.
- (6) Pactera Shenzhen obtained the approved "newly established IC design software enterprise and qualified software enterprise" in 2010 and was entitled to an exemption of EIT in 2010 and 2011 and 50% reduction for the subsequent three years at the preferential tax rate of 12.5% from 2012 to 2014. It was further recognized as a "key software enterprise under the State plan" in 2013, which entitled it to a 10% preferential income tax rate in 2013 and 2014. In 2014, Pactera Shenzhen was certified as the HNTE and entitled to an income tax rate of 15% from 2015 to 2016. For 2015, Pactera Shenzhen filed its income tax return applying to enjoy the preferential income tax rate of 10% as a "key software enterprise under the State plan" according to relevant tax laws and regulations.
- (7) Beijing DPC was qualified for the HNTE in 2012. As such, it was entitled to 15% tax rate from 2013 to 2014. In 2015, the HNTE status of Beijing DPC expired.
- (8) Pactera Shanghai Technology obtained the "Advanced Technology Service Enterprise" certificate in 2010 and renewed the certificate in 2012, which makes it eligible for a 15% income tax rate from 2012 to 2014. In 2015, Pactera Shanghai Technology renewed the certificate and entitled to an income tax rate of 15% from 2015 to 2016.

20. INCOME TAXES - continued

- (9) Pactera Dalian was further recognized as a "key software enterprise under the State plan" in 2012 and 2013, respectively, which entitled it to a 10% preferential income tax rate in 2012 through 2014. In 2015, Pactera Dalian filed income tax return applying the preferential income tax rate of 10% as a "key software enterprise under the State plan" according to relevant tax laws and regulations.
- (10) Pactera Shenzhen Information applied the "newly established IC design software enterprise and qualified software enterprise" in 2014 and approved by local tax authority in 2015. As such, it was entitled to an exemption of EIT in 2015 and 50% reduction for 2016 at the preferential tax rate of 12.5%.

The principal components of the Group's deferred income tax assets and liabilities are as follows:

	As of December 31,	
	2015	2016
	(Successor)	(Successor)
Deferred tax assets - current:		
Allowance for doubtful accounts	\$ 2,154	\$ 2,176
Accrued expenses	5,357	5,418
Total deferred taxes assets - current	7,511	7,594
Less: valuation allowance	(266)	(805)
Net deferred tax assets - current, net	7,245	6,789
Deferred tax assets - non-current:		
Net operating losses	14,377	15,161
Property, plant and equipment	9	12
Total deferred taxes assets - non-current	14,386	15,173
Less: valuation allowance	(11,006)	(14,285)
Net deferred tax assets - non-current, net	3,380	888
Current deferred tax liabilities:		
Unbilled account receivables	(290)	(286)
Undistributed earnings	(3,062)	(2,336)
Current deferred tax liabilities	(3,352)	(2,622)
Non-current deferred tax liabilities:		
Intangible assets	(19,646)	(18,885)
Property, plant and equipment	(726)	(675)
Non-current deferred tax liabilities	\$ (20,372)	\$ (19,560)

20. INCOME TAXES - continued

The Group operates through multiple subsidiaries and the valuation allowance is considered on each individual subsidiary. The subsidiaries registered in the PRC have total net operating loss carry forwards of \$23,004 and \$21,240 as of December 31, 2015 and 2016 of Successor, respectively, which will expire on various dates between December 31, 2017 and December 31, 2021. The subsidiaries registered outside the PRC have total net operating loss carry forwards of \$30,530 and \$38,291 as of December 31, 2015 and 2016, respectively, which will expire on various dates between December 31, 2027 and December 31, 2036.

Valuation allowances have been established because the Group believes that either it is more likely than not that its deferred tax assets will not be realized as it does not expect to generate sufficient taxable income in the future, or the amount involved is not significant.

The components of consolidated income (loss) before income tax expense as either domestic or foreign are as follows:

	For the Three Months Ended March 31,	For the Nine Months Ended December 31,	For the Year Ended December 31,	For the Year Ended December 31,
	2014	2014	2015	2016
	(Predecessor)	(Successor)	(Successor)	(Successor)
Domestic (Cayman Islands)	\$ 17,786	\$ (12,578)	\$ (33,830)	\$ (68,529)
Foreign (PRC)	(28,187)	28,787	24,261	30,076
Foreign (Others)	(3,887)	5,967	(6,368)	(160)
(Loss) income before income tax expense	<u>\$ (14,288)</u>	<u>\$ 22,176</u>	<u>\$ (15,937)</u>	<u>\$ (38,613)</u>

During the nine months ended December 31, 2014 and the years ended December 31, 2015 and 2016 of Successor, the Group had no change in its unrecognized tax benefits.

Uncertainties exist with respect to how the current income tax law in the PRC applies to the Group's overall operations, and more specifically, with regard to tax residency status. The EIT Law includes a provision specifying that legal entities organized outside of the PRC will be considered residents for Chinese income tax purposes if the place of effective management or control is within the PRC. The implementation rules to the EIT Law provide that non-resident legal entities will be considered PRC residents if substantial and overall management and control over the manufacturing and business operations, personnel, accounting, properties, and etc., occurs within the PRC. Despite the present uncertainties resulting from the limited PRC tax guidance on the issue, the Company does not believe that the legal entities organized outside of the PRC within the Group should be treated as residents for the EIT Law purposes. If the PRC tax authorities subsequently determine that the Company and its subsidiaries registered outside the PRC should be deemed as resident enterprise, the Company and its subsidiaries registered outside the PRC will be subject to the PRC income tax at 25%.

If the Company were to be non-resident for the PRC tax purpose, dividends paid to it out of profits earned after January 1, 2008 would be subject to a withholding tax. In the case of dividends paid by the PRC subsidiaries, the withholding tax would be 10% and in the case of a subsidiary 25% or more directly owned by a resident in Hong Kong, the withholding tax would be 5%, but that is subject to the interpretation of Circular No. 601 issued by the State Administration of Taxation, under which the Company's Hong Kong subsidiaries might not be considered to be the beneficial owner of any such dividends and in that case the withholding tax rate would be 10%. The Chinese tax authorities have also clarified that distributions made out of pre January 1, 2008 retained earnings will not be subject to the withholding tax.

20. INCOME TAXES - continued

During the year ended December 31, 2014, the Group has provided Chinese dividend withholding taxes in the amount of \$3,062, all of which is associated with anticipated earning distributions for more than a year, in relation to the undistributed earnings of Pactera Shenzhen as of December 31, 2014. If the Group were to distribute the unremitted earnings, the Group would be subject to the dividend withholding taxes of approximately \$19,288.

The Group is subject to taxation in the U.S. at federal and various states level and also foreign jurisdictions. There are no ongoing examinations by tax authorities at this time. The Group's various tax years from 2011 to 2016 remain open in various tax jurisdictions.

21. COMMON SHARES

Predecessor's Common Share

During the three months ended March 31, 2014, Predecessor issued 332,222 common shares in connection with the acquisition consideration in Sunwin and Pactera Australia as part of the earn-out payment for the business acquisitions and 185,230 common shares for future delivery to the employees upon exercise of vested share options or grant of nonvested shares.

As of the date of the Merger, there were 86,020,773 common shares outstanding among which 75,545,297 were repurchased at a consideration of \$7.3 per share and then cancelled, 4,557,997 were rolled over to Parent, 1,259,970 were converted to vested restricted share units at Parent, 1,097,560 originally issued for vested restricted shares were rolled over to Parent or repurchased at cash of \$7.3 per share and the remaining 3,559,949 jumbo shares were cancelled. In addition, Predecessor reissued 89,078,546 common shares to Successor in connection with the Merger.

Successor's Common Share

On August 29, 2013, the date of incorporation of the Company, the Company authorized 5,000,000 common shares with a par value of \$0.01 each and had one common share outstanding. On March 20, 2014, the shareholder of the Company approved a share split at a 1 to 100 ratio. On March 26, 2014, the Company issued a total of 45,242,929 common shares, with a par value of \$0.0001 each, to Parent. The number of common shares was adjusted retroactively for all periods presented for the share split.

As of December 31, 2016, the Company had 500,000,000 authorized common shares with a par value of \$0.0001 each and had 45,243,029 common shares issued and outstanding.

22. SHARE-BASED COMPENSATION

Predecessor's Share-Based Compensation

HiSoft 2005 Incentive Plan

On January 1, 2005, HiSoft's board of directors approved the HiSoft Technology International Limited 2005 Incentive Plan ("HiSoft 2005 Incentive Plan"). The maximum number of common shares that may be granted under this plan will not exceed 734,862 shares. HiSoft's board of directors approved 3,039,819, 1,111,254, 290,213, 716,938 and 716,938 additional shares for grant under this plan in 2006, 2007, 2008, 2009, and 2010, respectively.

No options shall be exercisable after ten years from the date of grant. The options will first vest as to 1/2, 1/3 or 1/4 of such options on a date specified in the option award agreement, which is usually a date approximately one year from the date of grant, and, thereafter, as to 1/8, 1/12 or 1/16 of such options, respectively, on each of the quarterly anniversaries from the first vesting date.

As of March 27, 2014, 6,249,360 options and nonvested shares have been granted to employees under this plan.

HiSoft 2011 Incentive Plan

On July 1, 2011, HiSoft's board of directors approved the HiSoft Technology International Limited 2011 Incentive Plan ("HiSoft 2011 Incentive Plan"). The total number of common shares that may be issued under this plan was 1,290,489. Upon the completion of the merger of equals with VanceInfo, the board of directors approved the First Amendment to HiSoft 2011 Incentive Plan and the total number of shares which may be issued under this plan was increased to 8,048,874, with an annual increase to be added on January 1 of each calendar year during the term of this plan, commencing from January 1, 2014, equal to the lesser of (i) 2.5% of the total number of shares issued and outstanding on December 31 of the immediately preceding calendar year, or (ii) a lesser number of shares determined by the Compensation Committee of Predecessor's board of directors, and subject to adjustment based on a change in the capital structure of Predecessor and other significant corporate events as specified in this HiSoft 2011 Incentive Plan. In addition to the above maximum aggregate number of common shares may be issued under this plan, the Compensation Committee of Predecessor may authorize, grant and issue common shares and stock options pursuant to or in substitution for any options or other awards assumed in connection with any mergers or other acquisitions; provided that such grants comply with all applicable laws and the rules of any exchange on which Predecessor's common shares are traded.

No options shall be exercisable after ten years from the date of grant. The options will first vest as to 1/2, 1/3 or 1/4 of such options on a date specified in the option award agreement, which is usually a date approximately one year from the date of grant, and, thereafter, as to 1/8, 1/12 or 1/16 of such options, respectively, on each of the quarterly anniversaries from the first vesting date.

22. **SHARE-BASED COMPENSATION** - continued

Predecessor's Share-Based Compensation - continued

VanceInfo 2005 Incentive Plan

Pursuant to the merger of equals with VanceInfo, Predecessor adopted the VanceInfo Technologies Inc. 2005 Incentive Plan ("VanceInfo 2005 Incentive Plan"), which brought forward from VanceInfo and allowed Predecessor to grant options to the former VanceInfo's employees and directors to purchase 1,867,500 common shares subject to vesting requirement. No options shall be exercisable after ten years from the date of grant. The options will first vest as to 1/4 of such options on a date specified in the option award agreement, which is usually a date approximately 9 months or one year from the date of grant, and thereafter, 1/48 of such options on each of the monthly anniversaries or 1/16 of such options on each of the quarterly anniversaries from the first vesting date.

VanceInfo 2007 Incentive Plan

Predecessor also adopted the VanceInfo Technologies Inc. 2007 Incentive Plan ("VanceInfo 2007 Incentive Plan"), which brought forward from VanceInfo and Predecessor authorized to grant to the former VanceInfo's employees and non-employees options to purchase common shares or nonvested shares up to a total of 1,100,000 common shares of Predecessor with an annual increase up to 3% of the number of total outstanding common shares of Predecessor as of the first day of each year beginning 2008. The plan will expire on the tenth anniversary of the effective date of the plan. The term of any option granted under this plan shall not exceed ten years. The options and nonvested shares will first vest as to 1/4 of such options on the first anniversary of the date of grant and thereafter, as to 1/16 of such options on each of the quarterly anniversaries or as to 1/4 of such options on each of the anniversaries from the first vesting date.

Termination of Options

If the grantee ceases to be employed by or ceases to provide services to Predecessor, (a) the grantee will have until the date that is 30 days for termination with cause, 60 days for termination without cause, 6 months for death or disability after his or her severance date to exercise the options (or portion thereof) to the extent they were vested on the severance date; (b) the options, to the extent not vested on the severance date, shall terminate on the severance date.

Exercise of Options

The option shall be exercisable by the delivery of a written notice to the secretary of Predecessor, in the form approved by Predecessor, stating the number of common shares to be purchased pursuant to the option and payment in full for the exercise price of the shares to be purchased in cash, by check or by electronic funds transfer to Predecessor.

22. **SHARE-BASED COMPENSATION** - continued

Predecessor's Share-Based Compensation - continued

I. Stock Options

Changes in options outstanding were as follows:

(i) HiSoft 2005 Incentive Plan

The options outstanding under the HiSoft 2005 Incentive Plan as of March 27, 2014 and activities for the three months ended March 27, 2014 were as follows:

	<u>Number of share options</u>	<u>Weighted average exercise price</u>
Share options outstanding as of January 1, 2014	2,140,191	\$ 4.37
Exercise.....	(853,190)	\$ 4.50
Cancelled.....	(30,031)	\$ 9.41
Rollover.....	(1,256,970)	\$ 4.16
Share options outstanding as of March 27, 2014	<u>-</u>	

(ii) HiSoft 2011 Incentive Plan

The options outstanding under the HiSoft 2011 Incentive Plan as of March 27, 2014 and activities for the period ended March 27, 2014 were as follows:

	<u>Number of share options</u>	<u>Weighted average exercise price</u>	<u>Weighted average grant-date fair value</u>	<u>Weighted average intrinsic value per option at the grant dates</u>
Share options outstanding as of				
January 1, 2014.....	245,616	\$ 7.38	\$3.75	-
Exercise	-	-		
Cancelled	(25,533)	\$ 8.62		
Rollover	(220,083)	\$ 7.23		
Share options outstanding as of				
March 27, 2014.....	<u>-</u>	-		

22. SHARE-BASED COMPENSATION - continued

Predecessor's Share-Based Compensation - continued

I. Stock Options - continued

(iii) VanceInfo 2005 Incentive Plan

The options outstanding under the VanceInfo 2005 Incentive Plan as of March 27, 2014 and activities for the period ended March 27, 2014 were as follows:

	Number of share options	Weighted average exercise price
Share options outstanding as of January 1, 2014	806,792	\$ 2.01
Exercised	(734,006)	\$ 1.99
Cancelled	(5,286)	\$ 6.96
Rollover	(67,500)	\$ 1.87
Share options outstanding as of March 27, 2014	<u>-</u>	<u>\$ -</u>

(iv) VanceInfo 2007 Incentive Plan

The options outstanding under the VanceInfo 2007 Incentive Plan as of March 27, 2014 and activities for the period ended March 27, 2014 were as follows:

	Number of share options	Weighted average exercise price
Share options outstanding as of January 1, 2014	1,911,859	\$ 7.63
Exercised	(491,396)	\$ 6.08
Cancelled	(897,464)	\$ 8.67
Rollover	(513,099)	\$ 7.93
Cash-out	(9,900)	\$ 6.57
Share options outstanding as of March 27, 2014	<u>-</u>	<u>\$ -</u>

II. Nonvested Shares

Under the HiSoft 2005 Incentive Plan, HiSoft 2011 Incentive Plan and VanceInfo 2007 Incentive Plan, nonvested shares were granted to its executives and senior management. Disposition of such shares are restricted, except in compliance with applicable securities laws. The closing market price of the ADS of Predecessor as of the grant date is used to derive the fair value of the nonvested shares on that date.

The nonvested shares will first vest as to 1/2, 1/3 or 1/4 of such options on a date specified in the share award agreement, which is usually a date approximately one year from the date of grant, and, thereafter, as to 1/24, 1/36 or 1/48 of such options, respectively on each of the monthly anniversaries or as to 1/8, 1/12 or 1/16 of such options, respectively, on each of the quarterly anniversaries from the first vesting date.

22. **SHARE-BASED COMPENSATION** - continued

Predecessor's Share-Based Compensation - continued

II. **Nonvested Shares** - continued

The following table summarizes information regarding the nonvested shares granted:

(i) HiSoft 2005 Incentive Plan

	Number of nonvested shares	Weighted average grant date fair value	Intrinsic value
Outstanding as of January 1, 2014.....	166,629	\$ 13.45	\$ 2,240
Vested	(129,644)	15.28	(1,981)
Cash-out.....	(36,985)	7.02	(259)
Outstanding as of March 27, 2014.....	-	\$ -	\$ -

(ii) HiSoft 2011 Incentive Plan

	Number of nonvested share units	Weighted average grant date fair value	Intrinsic value
Outstanding as of January 1, 2014.....	5,754,220	\$ 7.55	\$ 44,983
Vested	(3,057,830)	8.21	(25,112)
Forfeited	(43,566)	7.28	(317)
Rollover	(1,549,439)	7.40	(11,466)
Cash-out.....	(1,103,385)	7.33	(8,088)
Outstanding as of March 27, 2014.....	-	\$ -	\$ -

(iii) VanceInfo 2007 Incentive Plan

	Number of nonvested share units	Weighted average grant date fair value	Intrinsic value
Outstanding as of January 1, 2014	333,915	\$ 15.48	\$ 5,171
Vested	(295,552)	13.65	(4,034)
Forfeited	(6,463)	14.36	(93)
Rollover	(13,123)	33.34	(438)
Cash-out	(18,777)	32.26	(606)
Outstanding as of March 27, 2014	-	\$ -	\$ -

22. SHARE-BASED COMPENSATION - continued

Predecessor's Share-Based Compensation - continued

III. Performance Based Share Award Options and Nonvested Shares

Under the HiSoft 2011 Incentive Plan, performance based share award options and nonvested shares were granted to its executives and senior management.

The following table summarizes information regarding the options and nonvested shares granted:

	Number of share units	Weighted average grant date fair value	Intrinsic value
Outstanding as of January 1, 2014	2,337,829	\$ 7.20	\$ 18,281
Vested	(1,922,829)	7.89	(15,172)
Forfeited	(20,000)	7.49	(150)
Rollover	(312,500)	7.49	(2,341)
Cash-out	(82,500)	7.49	(618)
Outstanding as of March 27, 2014	-	\$ -	\$ -

Successor's Share-Based Compensation

Replacement Award

On the Merger Date, certain options, RSs and RSUs of Predecessor were rolled over into options, RSs and RSUs of Parent (the "Replacement Award"). As the rollover of such Predecessor options, RSs and RSUs were contractually required under the Merger Agreement, the portions of the Replacement Award that are attributable to pre-Merger and post-Merger services, respectively, are determined as of the Merger Date.

The terms and conditions of the Replacement Award granted by Parent are equivalent to the terms and conditions of the exchanged Predecessor options, RSs and RSUs. No additional vesting conditions were imposed on the holders of the Replacement Award. The remaining unrecognized share-based compensation expense associated with the unvested Replacement Award would be recognized over the period from the Merger Date through the end of the requisite service period of the Replacement Award.

Cash-out Award

On the Merger Date, other than options, RSs and RSUs that were settled in cash at the time of the Merger or rolled over into the Replacement Award as discussed above, Parent also granted a cash-out award for each remaining outstanding option, RS or RSU of Predecessor ("Cash-out Award"). Each Cash-out Award has the same vesting period as Predecessor option, RS or RSU that it replaced. The unvested portion of a Cash-out Award is subject to forfeiture if the grantee's employment is terminated prior to vesting. As of the Merger Date, each Cash-out Award entitled the grantee to receive a cash amount equal to the merger consideration of \$7.30 per share upon vesting. Share-based compensation expenses for the Cash-out Award are recognized ratably over the remaining service period.

22. SHARE-BASED COMPENSATION - continued

Successor's Share-Based Compensation - continued

2014 Omnibus Incentive Plan

On August 13, 2014, the board of directors of Parent approved Parent's Omnibus Incentive Plan (the "2014 Omnibus Incentive Plan"). The maximum number of options and nonvested share units that may be granted under this plan will not exceed 15,834,895, excluding awards that are settled in cash, that otherwise expire or become unexercisable without having been exercised, or that are forfeited to or repurchased by the Company for cash. Awards requiring exercise will have a maximum term not to exceed ten years from the date of grant.

Parent granted the following options and nonvested share units to the employees and directors of the Company under the 2014 Omnibus Incentive Plan:

<u>Grant Date</u>	<u>Stock Options</u>	<u>Time-Based Nonvested Share Units</u>	<u>Performance- Based Nonvested Share Units</u>
October 1, 2014	1,814,088	4,676,566	4,093,894
January 1, 2015	720,216	-	337,000
April 1, 2015	423,000	-	408,000
July 1, 2015	125,000	-	125,000
October 1, 2015	950,000	-	45,000
January 1, 2016	319,455	1,557,531	15,000
March 10, 2016	-	11,416	-
April 1, 2016	30,000	79,616	672,300
June 25, 2016	30,000	-	-
July 1, 2016	25,000	9,412	211,000
October 1, 2016	-	41,283	-
Total number of awards granted under the 2014 Omnibus Incentive Plan	<u>4,436,759</u>	<u>6,375,824</u>	<u>5,907,194</u>

As of December 31, 2016, 16,719,777 awards were granted under the 2014 Omnibus Incentive Plan and 3,127,882 awards were forfeited. The total number of awards vested and outstanding under the 2014 Omnibus Incentive Plan were 13,591,895, within the maximum number as set forth under the 2014 Omnibus Incentive Plan.

As the employees and directors entitled to the awards mainly provide service to the Company, the related compensation expenses should be recorded at the Company rather than Parent.

Stock Options

Vesting of Options

For existing employees, 25% of the options will vest on March 31, 2015, and the remaining 75% will vest pro-rata on the last day of each of the succeeding 12 calendar quarters, beginning with the quarter starting April 1, 2015.

For new hires, 25% of the options will vest on the first anniversary of the date of grant, and the remaining 75% will vest pro-rata on the last day of each of the succeeding 12 calendar quarters, beginning with the first quarter starting on or after the first anniversary of the date of grant.

22. **SHARE-BASED COMPENSATION** - continued

Successor's Share-Based Compensation - continued

2014 Omnibus Incentive Plan - continued

Stock Options - continued

Exercise of Options

The options may not be exercised until the occurrence of an initial public offering ("IPO").

Termination of Options

Immediately upon cessation of the employment of an option grantee, any portion of such option that is unvested at the time of cessation of employment will be forfeited. The portion of the option that is vested will also terminate and no longer be exercisable and all received shares will be forfeited upon such cessation of employment if such cessation is due to an act or failure to act constituting cause as defined in the 2014 Omnibus Incentive Plan.

Time-Based Nonvested Share Units

The time-based nonvested share units will be fully vested upon satisfaction of both the event-based vesting conditions and the time-based vesting conditions.

Event-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested if (a) an IPO, or (b) a Covered Transaction that results in the majority shareholder (or its affiliates) of Parent holding less than fifty percent (50%) of the total fair market value of the shares of the Group or the sale or transfer of all or substantially all of the assets of the Group occurs on or before the tenth (non-U.S. taxpayers) or seventh (U.S. taxpayers) anniversary of the date of grant.

Time-Based Vesting

Unless earlier terminated or forfeited, 25% of the nonvested share units will be vested on a date specified in the share award agreement, and the remaining 75% will be vested pro-rata on the last day of each of the succeeding 12 calendar quarters.

Covered Transaction means (i) a consolidation, merger, or similar transaction or series of related transactions, including a sale or other disposition of stock, in which Parent is not the surviving corporation or which results in the acquisition of all or substantially all of Parent's then outstanding common shares by a single person or entity or by a group of persons and/or entities acting in concert other than the Shareholder of Parent, (ii) a sale or transfer of all or substantially all Parent's assets determined on a consolidated basis, or (iii) a dissolution or liquidation of Parent. Where a Covered Transaction involves a tender offer that is reasonably expected to be followed by a merger described in clause (i), the Covered Transaction shall be deemed to have occurred upon consummation of the tender offer.

22. SHARE-BASED COMPENSATION - continued

Successor's Share-Based Compensation - continued

2014 Omnibus Incentive Plan - continued

Performance-Based Nonvested Share Units

The performance-based nonvested share units will be fully vested upon satisfaction of both the event-based vesting conditions and the performance-based vesting conditions.

Event-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested if (a) an IPO, or (b) a Covered Transaction that results in the majority shareholder (or its affiliates) of Parent holding less than fifty percent (50%) of the total fair market value of the shares of the Group or the sale or transfer of all or substantially all of the assets of the Group occurs on or before the tenth (non-U.S. taxpayers) or seventh (U.S. taxpayers) anniversary of the date of grant.

Performance-Based Vesting

Unless earlier terminated or forfeited, the nonvested share units shall be vested based on conditions which are based on Parent's earnings before interest and taxes from 2014 to 2017.

I. Stock Options

Changes in options outstanding were as follows:

(i) Replacement Award

	Number of share options	Weighted average exercise price
Assumed as of March 27, 2014 – before share split	2,057,652	
Assumed as of March 27, 2014 – after share split(*)	3,427,431	
Rolled over options convert to nonvested RSUs per Merger Agreement	(8,329)	
Rolled over options convert to vested RSUs per Merger Agreement	(47,177)	
Assumed as of March 27, 2014	3,371,925	\$3.21
Cancelled	(22,550)	4.99
Share options outstanding as of December 31, 2014	3,349,375	3.20
Share options exercisable as of December 31, 2014	3,288,993	3.17
Share options expected to vest as of December 31, 2014	60,382	4.99
Cancelled	(4,686)	4.99
Share options outstanding as of December 31, 2015	3,344,689	3.20
Share options exercisable as of December 31, 2015	3,344,689	3.20
Share options outstanding as of December 31, 2016	3,344,689	3.20
Share options exercisable as of December 31, 2016	3,344,689	\$3.20
Share options expected to vest as of December 31, 2016	-	-

22. SHARE-BASED COMPENSATION - continued

Successor's Share-Based Compensation - continued

I. Stock Options - continued

(i) Replacement Award - continued

The weighted average remaining contractual life of options outstanding and exercisable is 7.11 years.

(ii) Cash-out Award

	Number of share options	Weighted average exercise price
Assumed as of March 27, 2014 – before share split	9,900	
Assumed as of March 27, 2014 – after share split (*)	16,490	\$3.94
Cash payment	(13,326)	4.18
Cancelled	(3,164)	\$2.95
Share options outstanding as of December 31, 2014	-	-
Share options exercisable as of December 31, 2014	-	-
Share options expected to vest as of December 31, 2014	-	-

(*) On June 18, 2014, the shareholder of Parent approved a share split at a 1 to 1.6657 ratio.

(iii) 2014 Omnibus Incentive Plan

	Number of share options	Weighted average exercise price	Weighted average grant-date fair value
Outstanding as of March 27, 2014	-	-	-
Granted	1,814,088	\$4.38	\$1.63
Outstanding as of December 31, 2014	1,814,088	4.38	1.63
Granted	2,218,216	4.38	1.80
Forfeited	(323,400)	4.38	1.69
Options outstanding as of December 31, 2015	3,708,904	4.38	1.72
Options exercisable as of December 31, 2015	-	-	-
Options expected to vest as of December 31, 2015	3,708,904	4.38	1.72
Granted	404,455	4.38	1.84
Forfeited	(761,929)	4.38	1.80
Options outstanding as of December 31, 2016	3,351,430	4.38	1.72
Options exercisable as of December 31, 2016	-	-	-
Options expected to vest as of December 31, 2016	2,698,308	\$4.38	\$1.68

The weighted average remaining contractual life of options outstanding is 8.25 years.

22. SHARE-BASED COMPENSATION – continued

Successor's Share-Based Compensation - continued

I. Stock Options - continued

(iii) 2014 Omnibus Incentive Plan - continued

The fair value of the options rolled over to Replacement Award and Cash-out Award and granted under the 2014 Omnibus Incentive Plan was estimated by the management with the assistance of an independent third-party appraiser, and was determined using binomial model with the following assumptions:

	Rolled over to Replacement Award and Cash-out Award	Granted under the 2014 Omnibus Incentive Plan
Expected volatility ⁽¹⁾	41.0%	35.5% - 48.4%
Risk-free interest rate ⁽²⁾	3.75%-3.83%	1.32% - 2.50%
Expected dividend yield ⁽³⁾	Nil	Nil
Exercise price ⁽⁴⁾	\$4.99	\$4.38
Fair value of the underlying common shares ⁽⁵⁾	\$4.12	\$3.55 to \$5.08

(1) Volatility

The volatility of the underlying common shares during the life of the options was estimated based on average historical volatility of comparable companies for the period before the valuation date with lengths equal to the life of the options.

(2) Risk-free interest rate

Risk free rate is estimated based on market yield of US Treasury Bill with maturity close to the valuation date plus a country spread premium.

(3) Dividend yield

The dividend yield was estimated by the Group based on its expected dividend policy over the life of the options.

(4) Exercise price

The exercise price of the options was determined by Parent's board of directors.

(5) Fair value of underlying common shares

The fair value of the common shares underlying was estimated based on the fair value of common share of Parent as of the grant date, which was estimated with the assistance of an independent third-party appraiser.

Compensation cost recognized in relation to share options was \$47, \$12 and nil for the nine months ended December 31, 2014 and the years ended December 31, 2015 and 2016 of Successor for the Replacement Award and Cash-out Award.

22. SHARE-BASED COMPENSATION – continued

Successor's Share-Based Compensation - continued

I. Stock Options - continued

(iii) 2014 Omnibus Incentive Plan - continued

The Group did not record any compensation expenses in the consolidated statements of operations for share options granted under 2014 Omnibus Incentive Plan for the nine months ended December 31, 2014, or the years ended December 31, 2015 and 2016 of Successor as an IPO is generally not considered to be probable of occurrence until the IPO is effective.

II. Nonvested Share Units

Under the Replacement Award and Cash-out Award, Parent granted nonvested share units to its executives and senior management. Disposition of such share units are restricted. The fair value of common share of Parent as of the grant date is used to derive the fair value of the nonvested share units on that date, which was estimated with the assistance of an independent third-party appraiser.

(i) Replacement Award

	Number of nonvested share units	Weighted average grant date fair value
Assumed as of March 27, 2014 – before share split	1,562,562	\$4.12
Assumed as of March 27, 2014 – after share split (*)	2,602,760	4.12
Rolled over options convert to nonvested RSUs per Merger Agreement	1,004	4.12
Assumed as of March 27, 2014	2,603,764	4.12
Vested	(82,015)	4.12
Forfeited	(294,516)	4.12
Outstanding as of December 31, 2014	2,227,233	4.12
Vested	(1,731,079)	4.12
Forfeited	(17,327)	4.12
Outstanding as of December 31, 2015	478,827	4.12
Vested	(460,113)	4.12
Outstanding as of December 31, 2016	18,714	\$4.12

(*) On June 18, 2014, the shareholder of Parent approved a share split at a 1 to 1.6657 ratio.

22. **SHARE-BASED COMPENSATION** - continued

Successor's Share-Based Compensation - continued

II. **Nonvested Share Units** - continued

(ii) Cash-out Award

	Number of nonvested share units	Weighted average grant date fair value
Assumed as of March 27, 2014 – before share split	1,159,147	\$4.12
Assumed as of March 27, 2014– after share split (*)	1,930,791	4.12
Vested	(366,081)	4.12
Forfeited	(173,511)	4.12
Outstanding as of December 31, 2014	1,391,199	4.12
Vested	(834,634)	4.12
Forfeited	(299,741)	4.12
Outstanding as of December 31, 2015	256,824	4.12
Vested	(171,812)	4.12
Forfeited	(32,623)	4.12
Outstanding as of December 31, 2016	52,389	\$4.12

(*) On June 18, 2014, the shareholder of Parent approved a share split at a 1 to 1.6657 ratio.

Compensation cost recognized in relation to nonvested shares was \$6,324, \$4,049 and \$522 for the nine months ended December 31, 2014, the years ended December 31, 2015 and 2016 of Successor for the Replacement Award and Cash-out Award. There was \$27 of total unrecognized compensation expense related to nonvested shares as of December 31, 2016. The expense is expected to be recognized over a weighted-average period of 0.2 year.

(iii) 2014 Omnibus Incentive Plan

Time-Based Nonvested Share Units

	Number of nonvested share units	Weighted average grant date fair value
Outstanding as of March 27, 2014	-	
Granted	4,676,566	\$3.90
Outstanding as of December 31, 2014	4,676,566	3.90
Forfeited	(143,630)	3.90
Outstanding as of December 31, 2015	4,532,936	3.90
Granted	1,699,258	3.84
Forfeited	(158,401)	3.95
Vested	(3,623,539)	3.88
Outstanding as of December 31, 2016	2,450,254	\$3.88

22. **SHARE-BASED COMPENSATION** – continued

Successor's Share-Based Compensation - continued

II. **Nonvested Share Units** - continued

(iii) 2014 Omnibus Incentive Plan - continued

Performance-Based Nonvested Share Units

	Number of nonvested share units	Weighted average grant date fair value
Outstanding as of March 27, 2014	-	
Granted	4,093,894	\$3.90
Outstanding as of December 31, 2014	4,093,894	3.90
Granted	915,000	3.89
Forfeited	(309,636)	3.90
Outstanding as of December 31, 2015	4,699,258	3.90
Granted	898,300	4.27
Forfeited	(1,430,886)	4.07
Vested	(2,314,000)	3.90
Outstanding as of December 31, 2016	1,852,672	\$3.95

The Group did not record any compensation expense in the consolidated statements of operations for nonvested share units granted under the 2014 Omnibus Incentive Plan for the nine months ended December 31, 2014 and for the year ended December 31, 2015 of Successor as the occurrence of an IPO or a change of control is generally not considered to be probable until the IPO is effective or a change of control is complete.

As described in Note 26, a change of control occurred on January 3, 2017, which led to the event of change of control probable as of December 31, 2016. Accordingly, there were 3,623,539 time-based nonvested share units and 2,314,000 performance-based nonvested share units vested as of December 31, 2016. The Group recorded compensation expense of \$29,618 under the 2014 Omnibus Incentive Plan for the year ended December 31, 2016.

Set forth below is the impact on the result of operations of recording share-based compensation for the three months ended March 31, 2014 of Predecessor and for the nine months ended December 31, 2014, for the years ended December 31, 2015 and 2016 of Successor.

	For the Three Months Ended March 31, 2014 (Predecessor)	For the Nine Months Ended December 31, 2014 (Successor)	For the Year Ended December 31, 2015 (Successor)	For the Year Ended December 31, 2016 (Successor)
Cost of revenues	\$ 1,478	\$ 17	\$ 6	\$ 2,381
General and administrative expenses	14,884	6,253	4,003	26,297
Selling and marketing expenses	745	101	52	1,462
Total	<u>\$ 17,107</u>	<u>\$ 6,371</u>	<u>\$ 4,061</u>	<u>\$ 30,140</u>

23. CHINA CONTRIBUTION PLAN AND PROFIT APPROPRIATION

Full time employees of the Group in the PRC participate in a government-mandated multiemployer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. PRC labor regulations require the Group to accrue for these benefits based on certain percentages of the employees' salaries. These employee benefit expenses of Predecessor was \$11,877 for the three months ended March 31, 2014, while these employee benefit expenses of Successor for the nine months ended December 31, 2014, and for the years ended December 31, 2015 and 2016 were \$38,819, \$58,198 and \$61,487, respectively.

PRC legal restrictions permit payments of dividends by the Group's PRC entities only out of their retained earnings, if any, determined in accordance with PRC regulations. Prior to payment of dividends, pursuant to the laws applicable to the PRC Foreign Investment Enterprises, the Group's PRC subsidiaries must make appropriations from after-tax profit to non-distributable reserve funds as determined by the board of directors of the Group's PRC subsidiaries. These reserve funds include one or more of the following (i) a general reserve, (ii) an enterprise expansion fund, and (iii) a staff bonus and welfare fund. Subject to certain cumulative limits, the general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under accounting principles generally accepted in the PRC at each year-end) until the balance reaches 50% of the registered capital, and the other fund appropriations are at the management's discretion. These statutory reserve funds can only be used for purposes of general enterprise expansion and staff bonus and welfare and are not distributable as cash dividends. Appropriations to these reserves by Predecessor's PRC subsidiaries was nil for the three months ended March 31, 2014, while the appropriation to these reserves by Successor for the nine months ended December 31, 2014, years ended December 31, 2015 and 2016 was \$2,340, \$1,291 and \$2,278, respectively.

24. LEASES AND COMMITMENTS

The Group follows the current authoritative pronouncement issued by FASB regarding accounting for leases, in determining the criteria for capital leases. Leases that do not meet such criteria are classified as operating leases and related rentals are charged to expenses in the year incurred.

The Group leases its facilities, office and residential building under non-cancelable operating leases agreements. Rental expenses under operating leases of Predecessor for the three months ended March 31, 2014 was \$4,337, while rental expenses under operating leases of Successor for the nine months ended December 31, 2014, and the years ended December 31, 2015 and 2016 were \$14,184, \$21,711 and \$21,542, respectively.

The following is a summary by years of future minimum lease payments for operating leases that have initial or remaining non-cancelable terms in excess of one year as of December 31, 2016:

Years ending December 31,		
2017	\$	12,047
2018		9,558
2019		6,220
2020		3,082
2021		2,336
2022 and thereafter		5
Total minimum lease payments	\$	<u>33,248</u>

25. AMOUNT DUE FROM RELATED PARTIES

Nature of the relationships with the related parties:

Name	Relationship with the Group
Parent.....	Parent Company of the Group
Tiak Koon Loh	Director and the Chief Executive Officer of the Group

As of December 31, 2015 and 2016, the following balances were due from the related parties:

	As of December 31, 2015 (Successor)	As of December 31, 2016 (Successor)
Amounts due from Parent ⁽ⁱ⁾	\$ 6,546	\$ 12,611
Amounts due from Tiak Koon Loh ⁽ⁱⁱ⁾	\$ 7,129	\$ 3,892

- (i) The balance represents an unsecured interest-free loan provided to Parent with no fixed repayment terms. In the years ended December 2015 and 2016, the Group paid monitoring and management fee in the amounts of \$4,233 and \$6,065 respectively, to the main shareholder and the board of directors on behalf of Parent.
- (ii) In November 2014, the Company entered into a loan agreement with Tiak Koon Loh (“Mr. Loh”), the director and the chief executive officer of the Group to provide Mr. Loh a loan of US\$10.0 million. Pursuant to the loan agreement, the loan bears no interest and is due for payment no later than five years from the date the loan was received by Mr. Loh (the “Loan Period”). During the Loan Period, the loan is secured by a first ranking perfected equitable mortgage over all of the securities that Mr. Loh owned of Parent. In March 2016, Mr. Loh repaid \$5.0 million of the loan.

The fair value of this loan was determined using a discount rate of 8.76% for a 5-year loan period. The discount rate was estimated by considering the effective interest rate of the Senior Secured Notes which the Group received its financing in March 2014. The difference between the principle and the fair value of the loan was treated as deferred cost and amortized over the loan period using the effective interest rate.

26. SUBSEQUENT EVENTS

- (1) As described in Note 1, on August 8, 2016, HNA, the Parent, BCP PRC and certain other shareholders of the Parent entered into a share purchase agreement that provided for the acquisition by HNA or any of its affiliates of all or substantially all of the outstanding shares of the Parent. On January 3, 2017, the acquisition was completed and Great Paeon acquired all of the outstanding shares, vested stock options and vested nonvested share units of the Parent. As a result, a change of control of the Company has occurred.

The total consideration is approximately \$700.0 million, which is to be finalized based on the financial position of the Parent as of January 3, 2017.

In addition, on January 3, 2017, 8,900,825 outstanding vested options and nonvested share units and 3,509,021 unvested options and nonvested share units granted under the Replacement Award, Cash-out Award and 2014 Omnibus Incentive Plan were cancelled and replaced by the new awards granted under a new incentive plan.

- (2) Pursuant to the indenture of Senior Secured Notes, the Company is required to offer to purchase the Senior Secured Notes upon the occurrence of a "change of control" as defined in the indenture. In connection with the change of control event on January 3, 2017 (as described in paragraph (1) above), on February 2, 2017, the Company issued a "Change of Control Offer Notice" pursuant to which the Company offered to purchase all of the outstanding Senior Secured Notes (the "Change of Control Offer") at a price in cash equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest (the "Change of Control Payment"). The Change of Control Offer expired on March 29, 2017 and \$169.4 million of the Senior Secured Notes was validly tendered and not withdrawn as of such time. On April 3, 2017, payment was made in full with respect to the Senior Secured Notes tendered in the Change of Control Offer by the Company using primarily proceeds of an unsecured interest-free shareholder loan from Great Paeon. Accordingly, the redeemed amount has been reclassified as the current portion of the Senior Secured Notes in the consolidated balance sheet as of December 31, 2016.
- (3) On January 3, 2017, Great Paeon repaid the entire outstanding amounts under the Revolving Credit Facilities and terminated the Revolving Credit Facilities agreements.
- (4) On January 3, 2017, HNA, the Company and Mr. Loh agreed to settle \$2.0 million of Mr. Loh's loan by the consideration that HNA should pay to Mr. Loh due to the acquisition. The outstanding principle amount of the loan is \$3.0 million as of January 3, 2017.
- (5) On January 4, 2017, the Group entered into a share purchase agreement with a third party to sell the entire equity interest in Sunwin for a cash consideration of \$8,260 which might be changed within the measurement period. A gain of \$774 was recognized for the sale of Sunwin in January 2017 based on current estimated consideration.
- (6) In March and April 2017, the Group obtained additional loans totaling RMB100.0 million (\$14.5 million) under the Secured Short-Term Borrowing Facility (see Note 16), each of which bears an interest rate of 5.22%.
- (7) The Group entered into a stock purchase agreement on March 31, 2017 to acquire a Delaware corporation whose main business is to provide digital platform services to customers for their digital strategy and development and implementation of digital platform projects. The acquisition is expected to be completed in the second half of 2017 subject to certain terms and conditions.